Government of South Australia

HomeStart FINANCE

Annual Report

2014-15

Contents

30 September 2015

The Hon John Rau MP
Minister for Housing and Urban Development
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister,

HomeStart Finance 2014-15 Annual Report

I am pleased to present a summary of HomeStart's achievements and community contribution over 2014-15.

Having assisted 1360 South Australian households purchase their own home over the year, the importance of HomeStart's role is highlighted in the fact that more than 87% of those customers would not have been able to secure finance elsewhere.

We look forward to another year of growth, and further contributing to the South Australian Government's strategic priorities by making home ownership a reality for more people in more ways.

I welcome any requests for further information should you have any questions about this report.

Yours sincerely,

Jim Kouts
Chair
HomeStart Finance

Sound performance in a challenging business environment

This is one of the most challenging business environments faced by the HomeStart Finance model in some time. While interest rates may be at record lows, our customers continue to need the support of HomeStart, as they are not able to secure finance from traditional lenders.

In 2014-15, HomeStart assisted 1360 households into home ownership, 647 of which were first home buyers. One in eight South Australian first home buyers now come to HomeStart for finance, as we continue to position ourselves as the place first home buyers start.

Importantly, financial targets set by the state government were met, including a Return on Equity of 9.09% and a profit of $15.6 million, which continues our run of being profitable every year of operation. Our contribution to the government in 2014-15 was $40.7 million, with a 23.8% return on investment for the state.

I am also pleased to report in 2015-16 we will be delivering a special dividend of $20 million to the Department of Treasury and Finance. This is in recognition of HomeStart's sound financial performance that has been sustained since its inception more than 25 years ago.

The market and our influence

Consumer demand continued to respond to low interest rates, with the Adelaide median house price increasing by 2.45% compared to the same period last year, and peaking at $428 250 in the June quarter in spite of the state's slow economic growth and high rates of unemployment. As we navigated this environment, our focus remained on our business strategy and leveraging our unique products and customer focused approach, to improve access into home ownership.

The removal of the First Home Owner Grant for established homes affected first home buyer demand, however, the continued grant for new homes provided an incentive which saw our construction loans make up 28.4% of all first home buyer loans. The state government's prioritisation of urban infill projects will also help to support the construction industry and housing supply.

Housing affordability remains a key challenge for all Australians and our role in making home ownership possible for more people, particularly those underserved by mainstream lenders, is as relevant now as it has ever been. This is evident in the fact that more than 87% of this year's customers would have been unable to secure finance from a mainstream lender at the time of their application.

Our influence in the South Australian housing finance sector was confirmed by our involvement in the Senate Inquiry into Housing Affordability in July 2014, with the published findings presented in May 2015 recognising the HomeStart model and shared equity loan product as two potential solutions that could be elevated to a national level.

HomeStart's growing influence as an advocate of South Australian home buyers was also evident through an increase in media coverage in 2014-15, with nearly 50% more published or broadcasted news items referencing HomeStart compared to the previous financial year.

The board, and the year ahead

In my first full year as Chair, it was wonderful to celebrate our 25th birthday and reflect on HomeStart's achievements over a generation, while establishing the foundation for a new phase of growth and innovation. As always, a key focus for the board is to look forward and work with management to develop a refreshed strategy for the next three years. The board has risen to the challenge and I want to take this opportunity to thank them for their efforts.

On behalf of the board, I would like to thank the HomeStart team for their dedication, efforts and outcomes achieved over the past year and their ongoing commitment to our customers. It is this connection with the customer that brings about real change in the housing landscape.

With our three year Strategic Plan in position to guide us towards 2018, I believe we are very well placed for the future. I look forward to the year ahead, being a part of a valuable state business and welcoming more South Australians into home ownership.

Jim Kouts
Chair

25 years

The 2014-15 year marked HomeStart's 25th birthday – and we had more than 66,000 reasons to celebrate, with HomeStart helping that many households into home ownership since inception. While it has been a time to celebrate, it also provided an opportunity to reflect on a rich history of achievements over an entire generation:

- 66 257 households assisted into home ownership
- Almost 36 000 first home buyers assisted into home ownership
- $456.9 million in payments to the SA Government
- Profitability every year of operation.

Our success is a story of a sustained collective effort, and these achievements would not have been possible without the hard work and enthusiasm of our people and their commitment to our customers. Their initiative, passion and willingness to contribute ideas and challenge the status quo, continues to be a source of inspiration for me.

Our customers and partners

In addressing housing affordability, one of the stand-out events for me over the last year was the re-launch of our Graduate Loan to extend the eligibility criteria to include Certificate III and IV graduates. We know graduates are in a good position to begin their home ownership journey despite difficulties saving for a deposit, and the product expansion recognised these circumstances. We also showed support for our graduates by teaming up with TAFE SA and sponsoring their Building and Construction Awards. Since the re-launch, we have seen a 58% increase in Graduate Loans, helping more skilled and qualified South Australians overcome the initial home buying hurdles, and importantly, staying in South Australia.

We also celebrated the opening of our new lending office at Morphett Vale in April 2015, taking HomeStart 'out to the suburbs' and improving our service to our customers. We will look to build on this in the coming year, with a new office proposed in the northern suburbs.

To take advantage of our significant investment in technology in the previous financial year, we have worked at strengthening our distribution network by partnering with an additional two aggregator groups and thereby gaining access to another 90 brokers who can write HomeStart home loans.

Our community

Home ownership remains an important goal for many migrant communities who have spent much of their life homeless, and we are extremely proud of the role we play in helping them into home ownership. Our success with our migrant programs was marked by the fact that migrant loan settlements comprised more than 40% of new lending. We proudly celebrated with the Bhutanese community by hosting a function in Salisbury during the year that recognised their achievements and journey towards home ownership. It was truly a great cultural event but also a very humbling one, as we listened to their personal stories.

Looking forward

The journey to develop our new strategic plan was a robust and rigorous one, and I would like to thank the board and the executive and strategy teams for their energy and commitment to creating a plan that establishes a strong foundation for sustainability and growth into the future.

I am particularly excited about our upcoming move into our new office premises on Pirie Street, which will allow the entire HomeStart team to be on one floor in an open plan working environment. As well as developing closer relationships between people across functions, the new office will enhance awareness of every individual's impact on, and contribution to, the customer experience.

Our board continues to provide wise counsel and support to myself and the executive team. There have been a number of challenges in the past year and their strength of commitment to HomeStart has ensured those challenges have been met.

There is no doubt in the current economic and market environment we will continue to be confronted with a number of 'curve balls'. But by focusing on our unique capabilities, drawing on our people's strengths and as always, focusing on our customers, we will continue to have significant value and relevance in making home ownership a reality for more people in more ways.

John Oliver

Chief Executive Officer

Our Organisation

Our reason for being

HomeStart's reason for being is to make home ownership a reality for more people in more ways. After 25 years of operation, this purpose remains clear and represents an ongoing source of value for the South Australian Government and state.

Our organisation

As a statutory corporation operating under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*, HomeStart is empowered to:

- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including finance on concessional or special terms for low to moderate income earners
- provide, market and manage home finance products and facilitate alternative schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care residential accommodation or facilities.

SA Government strategic priorities

Reporting to the Minister for Housing and Urban Development, we contribute to the government's strategic priorities to help make a difference to the future prosperity of South Australia.

Access to affordable and sustainable home finance is an important component in ensuring the dream of owning a home remains within reach of all South Australians. HomeStart specifically contributes to 'Building a Stronger South Australia' by creating affordable places to live through providing innovative home loans that enable customers to buy a place of their own. The associated benefits of home ownership, such as increased well-being and stability, also assist to create a vibrant city with safe and healthy neighbourhoods.

Our strategy 2012-15

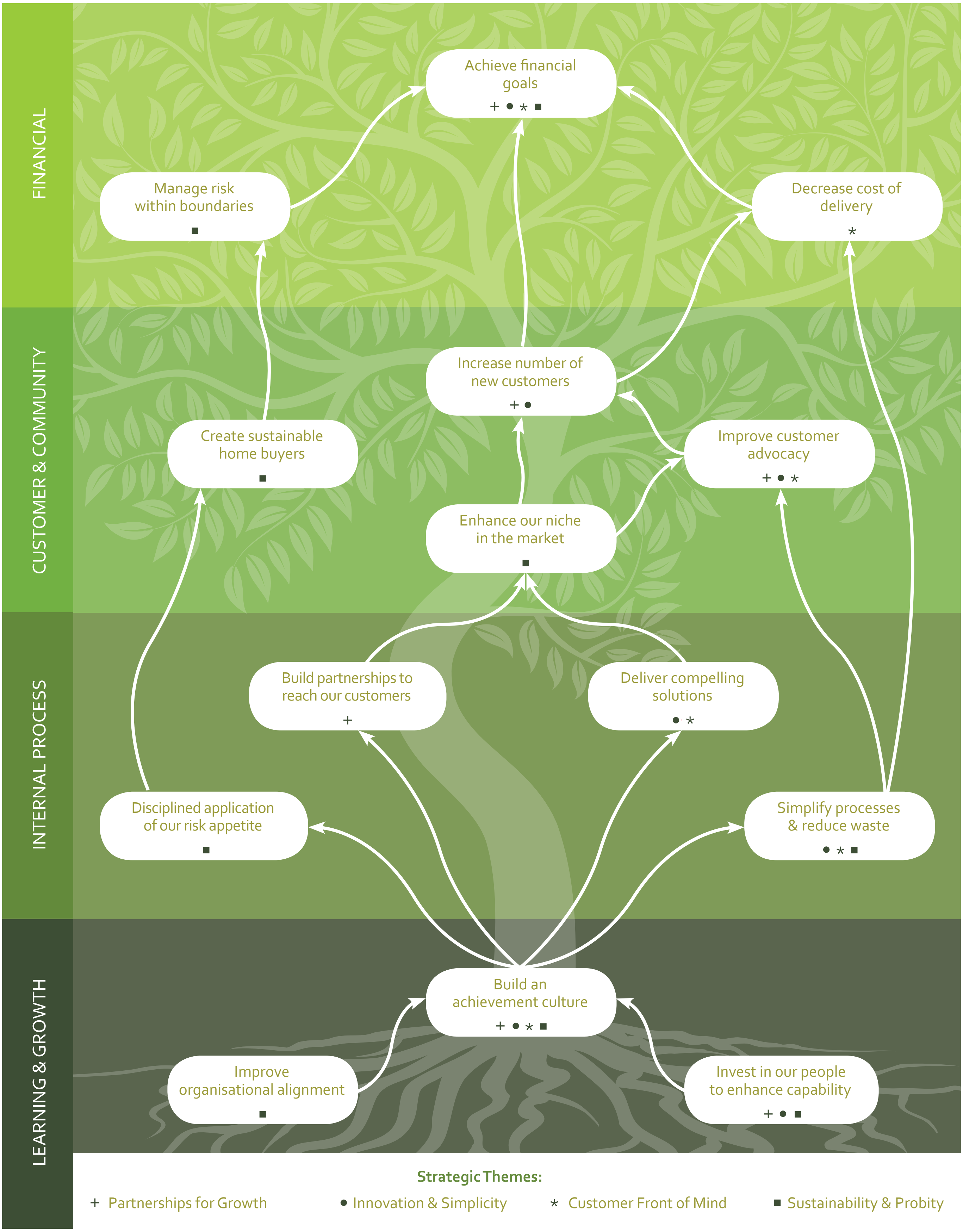
Our priorities are to:

- make HomeStart the place first home buyers start
- increase the number of people we help
- build an achievement culture.

HomeStart's strategic plan is illustrated in the form of the strategy map (over page), which emphasises developing our people as a foundation. By developing our people we intend to improve our processes, with the aim of increasing our value to customers and the community, which will ultimately lead to financial results.

Our strategy 2012-15

This strategy map highlights how we achieve our goals:



Customer & Community

Our customers

Over 25 years we have helped more than 66 000 South Australian households into their own home.

These customers come from a range of backgrounds and circumstances including:

- first home buyers starting out
- graduates looking to buy their own home sooner
- migrants from 111 countries setting permanent roots in South Australia
- single parents starting over
- moderate income households in need of a borrowing boost
- seniors looking to fund lifestyle changes with a reverse mortgage
- singles leaving their parents' home
- public housing tenants moving out of rental accommodation.

Of our 1360 customers in 2014-15:

- 647 were first home buyers
- 53.2% were leaving private rental
- 35% bought homes in the northern fringes of metropolitan Adelaide, while 24% bought homes in the country
- 220 built new homes, representing 16.2% of new lending
- the average loan size was $232 386, a 4.5% increase on last financial year
- the average purchase price was $253 424
- more than 87% would not have been able to secure finance from a mainstream lender at the time of their application.

Lending

The South Australian housing market remained relatively stable in 2014, despite two official cash rate cuts from the Reserve Bank of Australia that brought the rate to a historical low of 2% in April 2015.

Data from the Real Estate Institute of South Australia (REISA) showed a 2.45% increase in Adelaide's median house price compared to the same period last year, peaking in the June quarter 2015 at $428 250. Despite negative market sentiment with rising unemployment reaching a high of 7.3% in January 2015, South Australia remains in a better housing affordability position compared to other state capitals.

The removal of the First Home Owner Grant for established homes continued to affect overall first home buyer demand. The ongoing grant for new dwellings and the state government's support of urban infill projects gave an incentive for first home buyers to build, though the Housing Industry Australia (HIA) projected dwelling starts to fall by 1.4% in 2014-15. Despite these challenging conditions, HomeStart settled 1360 loans – an increase of 1.1% from last financial year.

Our loans

HomeStart's Standard Home Loan offers flexible repayment and interest rate options to assist customers to purchase an existing home, build, refinance, or buy land now and build later. In addition to the standard loan, we have a range of innovative home loans that enable customers to borrow more or get started sooner with less upfront costs.

Graduate Loan

Since 2002, the Graduate Loan has helped 2350 graduates buy a home with a 3% deposit for established homes, or a 6% deposit to build.

In October 2014, we extended the eligibility criteria for the Graduate Loan to include Certificate III and IV graduates as eligible to apply. A total of 215 Graduate Loans were settled in 2014-15, an increase of 58%, as well as a total loan value increase of 70% compared to the previous financial year. This is a particularly pleasing result, as HomeStart is providing more graduates with a clear pathway to home ownership, and helping to retain skilled and qualified South Australians in the state.

Low Deposit Loan

The Low Deposit Loan offers a 3% deposit option for first home buyers and next home buyers to buy an existing home in metropolitan South Australia. A total of 68 Low Deposit Loans were settled this financial year.

Breakthrough Loan

The Breakthrough Loan is combined with another HomeStart loan under a shared appreciation arrangement, to enable home buyers to afford a better home or to refinance after a change in circumstances. This means customers can borrow up to 30% more or reduce their ongoing loan repayments by sharing a portion of their home's change in value with HomeStart when the property is sold or refinanced.

A total of 43 Breakthrough Loans were settled this financial year.

Advantage Loan

The Advantage Loan is an additional loan of up to $45 000 for people earning under $60 000 p.a. after tax. It helps home buyers increase their borrowing capacity without a corresponding increase in repayments, with repayments not required on the Advantage Loan until the primary loan is repaid. The Advantage Loan also has an interest rate equivalent to the Consumer Price Index (CPI).

Late in 2013-14, HomeStart increased income eligibility criteria and maximum loan amount available for the Advantage Loan to ease home loan affordability. This created greater demand for the loan, and the number of settlements increased by more than 38% compared to the previous financial year, totalling $12.1 million in value.

Since 1993, the Advantage Loan has helped more than 11 550 households achieve their home ownership aspirations. A total of 424 Advantage Loans were settled this financial year.

EquityStart Loan

The EquityStart Loan is a joint initiative with the Department for Communities and Social Inclusion and is a secondary loan of up to $50 000 for current public housing tenants, combined with a HomeStart loan. Customers can use the loan to buy the Housing SA home they're living in (if it is for sale), another Housing SA property, a property on the private market, or to build.

A total of 36 EquityStart Loans were settled this financial year.

Wyatt Loan

In conjunction with the Wyatt Trust, HomeStart offers eligible low income households a loan of up to $10 000 to assist with meeting the upfront costs associated with a home loan. The Wyatt Loan is taken out with a HomeStart loan, and offers an interest and repayment free period of five years. The Wyatt Trust is a not-for-profit organisation dedicated to reducing financial disadvantage and improving the quality of life for South Australians.

Since 2007, 236 customers have accessed the Wyatt Loan. A total of 34 Wyatt Loans were settled this financial year.

Loans for construction

Continuation of the $15 000 First Home Owner Grant provided first home buyers an incentive to build or buy new dwellings, and a total of 220 loans were settled for construction.

HomeStart's construction option remains unique in that home buyers can choose not to make loan repayments for the first nine months or until construction is complete, whichever comes first. This can assist renters to cover rental costs while their home is being built.

Seniors Equity Loan

HomeStart offers a reverse mortgage product for over 60s to unlock the equity in their home. This helps seniors fund lifestyle expenses, home renovations or to supplement their income. A total of 89 Seniors Equity Loans were settled this financial year.

Distribution

In April 2015 HomeStart opened a suburban office in Morphett Vale, to better service home buyers in the southern metropolitan area, who account for almost 20% of our total lending. A total of 16 loans were settled for $2.6 million in the three months since opening.

HomeStart works with three distribution channels; the HomeStart offices; four Loan Managers (BankSA, The Home Loan Centre through KeyInvest Lending Services, Homeloans Plus and Bernie Lewis) and a broker network of 11 aggregators.

Our brokers settled 420 new loans worth $100.8 million, representing over 30% of new lending and an increase of 4.4% compared to last financial year. In 2014-15, new aggregator agreements were made with Choice Aggregation Services and PLAN Australia. HomeStart now has 276 accredited brokers who offer our loans, with 90 new brokers accredited this financial year. HomeStart's investment in the new Front End Loan System (FELS) in 2013 supported this growth in broker distribution, and we continue to aim to source 50% of new lending from brokers by 2016.

Improving the way we connect with our business partners, our online broker platform was redesigned and relaunched as HomeStart Broker, emphasising HomeStart branding but also simplifing the user experience. Broker TV was also launched in March 2015 and the bi-monthly web-videos communicate process and product improvements as well as introducing the HomeStart business partner team.

Customer service

Our customers connect with us in a variety of ways including face-to-face, over the phone and online, through our social media channels and corporate website. We also provide translator services to assist customers from culturally and linguistically diverse backgrounds.

In 2014-15, online platforms were refreshed in design to accentuate and align with HomeStart branding. Since optimisation of the corporate website there was a 40% increase in users on mobile devices in 2014-15 compared to the previous financial year. The corporate website had 195 327 users during 2014-15 and MyStart, our online learning centre for aspiring home buyers and customers, had 60 698 users (a 10% increase from 2013-14).

HomeStart's Facebook community of existing and potential customers experienced a 50% increase of lifetime likes, reaching 7149 likes at 30 June 2015. Notably, the consumer traffic driven from Facebook to the corporate website increased by 5% over the financial year, with 13 896 users visiting homestart.com.au via Facebook. HomeStart's Youtube videos had 212 260 views during 2014-15, which was more than an 83% increase compared to last financial year, and now a lifetime total of 259 567 views.

In the market, HomeStart continued to promote its 'Sooner' marketing campaign via television, billboard and online advertising. The Graduate Loan was also a focus after the extension of eligibility criteria in October, and was utilised in the marketing strategy to shift HomeStart brand associations towards a smart option for first home buyers.

HomeStart primarily receives enquiries via its Customer Contact Centre (CCC). This year a new phone system was installed to improve the customer experience as well as enhance reporting for internal purposes. More than 15 022 enquiries were received via the CCC and eligible leads from these enquiries referred internally and out to loan managers resulted in over 40% of all loan settlements in 2014-15.

Since 2010, HomeStart has used the Net Promoter Score (NPS) to measure customer satisfaction and loyalty – that is, their likelihood to recommend us to friends and family. The NPS allows us to track and act on customer sentiment and ensure we are providing a good customer experience. In 2014-15, HomeStart's average NPS score was 39, an increase of five points from last financial year and well above the industry average.

Community lending

HomeStart's specialist community lending team has achieved 447 community housing outcomes to the value of $45.2 million in loans. The team partners with federal and state government agencies which provide grant funding, as well as benevolent associations which provide gift funding, to deliver community lending finance to community housing organisations.

In 2014, we assisted in funding part of a $22 million Unity Housing project, which has been supported by the state government and regional development boards. HomeStart's $12.4 million contribution assisted with building 102 homes in 11 locations, including Port Augusta, Whyalla, Port Pirie, Laura, Melrose and Burra, and comprised a mix of homes for affordable purchase and rental.

HomeStart has also recently funded projects with Lutheran Housing, Community Housing Limited and Access 2 Place for a total value of $2.5 million during the financial year.

Community contribution and social responsibility

HomeStart supports the community through sponsorships, seminars, corporate volunteering and donations. We establish and maintain relationships with a wide variety of organisations, not-for-profits and events that share our values and help to make positive social change for the state of South Australia.

Sponsorships

Our sponsorships reflect the values of our brand, our employees and our desire to build prosperous communities by supporting the places our customers live, work and learn.

Operation Flinders

Since 2010, HomeStart has supported Operation Flinders through their major fundraiser, The Operation Flinders Challenge. The 2014-15 event raised $140 000 with 900 participants supporting the cause to help youth at risk.

Channel 9 Young Achievers Awards

HomeStart continued to support the Channel 9 Young Achievers Awards for the eleventh successive year as principal prize sponsor.

Australian Refugee Association (ARA)

In 2014-15, HomeStart's relationship with ARA was strengthened through our mutual desire to support new Australians as they settle in our state. Supporting events such as 'Amble for ARA' and our internal 'Eat your way around the world' fundraiser, allowed us to contribute to this important cause. This focus prompted an increase in our migrant customer loan settlements, comprising 40.5% of new lending this financial year.

Seminars

HomeStart hosts free first home buyer seminars to help educate the public on the homebuying process. Five seminars were held in 2014-15 with a record-breaking 358 attendees. Seminars were also held in conjunction with Devine's seminar series on building, and others delivered specifically to migrant communities.

Corporate volunteering

HomeStart offers all employees one day of corporate volunteer leave per year which they can use to help provide valuable skills and hands-on assistance to approved organisations. Last year, 21 volunteers assisted in a Habitat for Humanity build as part of HomeStart's 25th birthday celebration.

Donations and fundraising

In 2014-15, HomeStart helped the following organisations by donating to their causes:

- Habitat for Humanity SA
- Hutt Street Centre
- Eye Play Sport
- UniSA Bangladeshi Student Society
- Warradale Community Children's Centre
- Sampson Flat Bushfire Relief Fund
- Wirreanda High School
- Croydon Kings Football Club
- Riding for the Disabled SA
- HeartKids
- Life Education SA
- BankSA Staff Charitable Fund.

Learning & Growth

Our people

This financial year, HomeStart introduced new corporate values that underpin all activity and drive the organisation towards achieving our strategic goals:

- achievement – we are focused on creating positive outcomes for each other
- simplicity – we are focused on simplifying the way we do business
- integrity – we are honest and genuine with each other.

At HomeStart, we know that engaged and empowered employees contribute to organisational performance. By investing in development initiatives, we not only enhance the skills and capabilities of employees, but also foster an achievement culture.

During 2014-15 these initiatives included:

- establishment of a Culture Council involving representatives from across the business
- implementing the 'I Make A Difference' leadership framework, which incorporates behavioural expectations and supports an environment that recognises and rewards performance
- a 'One Team Day' to promote and develop closer relationships between teams.

HomeStart's formal leadership program 'Leadership for Success' enabled our people leaders to enhance self awareness and learn skills to consciously influence the organisational culture. Our pilot 'BluePrint' self-leadership program empowered 20% of HomeStart employees to discover their strengths and passions and enable them to give their best contribution to their work and life.

Our people have expressed an improvement in their overall work environment and experiences, indicated by the following key results:

- a positive shift in Culture Survey results towards more constructive behaviours
- employee engagement currently at 74%.

HomeStart continues to offer flexible work arrangements to balance the needs of employees and the business. Other benefits include:

- an annual Healthy Lifestyle Benefit for participation in activities or programs that contribute to a healthy lifestyle
- five weeks annual leave entitlement
- leave to support further study
- a wellbeing program.

Learning and growth statistics

Documented review of individual performance management

Employees with	% of workforce
A review within the past 12 months	87.0
A review older than 12 months	0.0
No review*	13.0

*new employees at HomeStart and/or casual

Average days leave per full-time equivalent employee

Leave type	2014-15	2013-14	2012-13	2011-12
Sick leave	5.2	4.3	5.6	6.1
Family carer's leave	1.3	1.4	1.3	1.5
Miscellaneous special leave	0.6	0.7	0.6	0.8

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total workforce	% Workforce benchmark*
15-19	1	0	1	0.9	5.5
20-24	0	1	1	0.9	9.7
25-29	1	2	3	2.8	11.2
30-34	3	6	9	8.4	10.7
35-39	6	11	17	15.9	9.6
40-44	9	10	19	17.8	11.4
45-49	8	8	16	15.0	11.1
50-54	10	7	17	15.9	11.4
55-59	8	6	14	13.1	9.1
60-64	5	1	6	5.6	6.7
65+	3	1	4	3.7	3.6
Total	**54**	**53**	**107**	**100.0**	**100.0**

* Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at November 2013

Leadership and management training expenditure

Training and development	Total cost	% of total salary expenditure
Total training and development expenditure (includes leadership and management development expenditure)	$667 407	6.3
Total leadership and management development expenditure	$353 661	3.3

Total number of employees with disabilities

Male	Female	Total	% of workforce
0	0	0	0.0

Executives by gender and status

	Male	%	Female	%
Term tenured	4	80.0	1	20.0
				100.0

Further human resources information is available from the Office for the Public Sector website http://publicsector.sa.gov.au/

Organisational chart

- Minister for Housing and Urban Development
  - HomeStart Board
    - Chief Executive Officer
      - Legal Officer
      - Head of Strategy, People and Operations
        - Strategy
        - People and Performance
        - Project Office
        - Operational Excellence
        - Marketing and Communications
        - Product Development
        - Information Technology
        - Business Intelligence
        - Facilities and Procurement
      - Head of Retail
        - Sales and Service
        - Lending Operations
        - Community Lending
        - Origination
        - Credit Management
        - Real Estate
      - Head of Treasury, Finance and Risk
        - Treasury
        - Policy and Compliance
        - Asset and Liability Management
        - Finance
        - Information Assets Management

Internal Processes

Corporate governance

HomeStart Finance is a statutory corporation operating under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007.*

Under the state government's administrative arrangements, HomeStart falls under the ministerial responsibility of the Minister for Housing and Urban Development, the Hon John Rau MP.

Our approach to corporate governance is guided by legislation, state government guidelines issued by the Department of Premier and Cabinet, Treasurer's Instructions issued by the Department of Treasury and Finance, and principles of best practice.

Board of management

HomeStart is administered by a seven member board of management. Board members are appointed by the Governor for a term not exceeding three years, and are entitled to such remuneration, allowances and expenses as determined by the Governor. The members who held office during 2014-15 are identified on pages 24 and 25.

Board members are independent of the organisation and are chosen for their expertise and skills in matters related, or complementary to, HomeStart's business.

The board is responsible to the Minister for Housing and Urban Development for overseeing HomeStart's business operations, with a particular focus on corporate accountability, strategic planning, monitoring, policy development and protecting the state government's financial and other interests in the organisation.

The following committees of the board operate under individual charters and assist the board in discharging particular functions. The members of each of the committees are selected for their expertise and independence.

Audit Committee

This committee is chaired by Sue Edwards and includes two other board member representatives. Management personnel and representatives of external and internal auditors also attend meetings. The Audit Committee's primary responsibilities are:

- monitoring risk management processes and the status of operational risks
- reviewing the financial reporting processes and outputs
- monitoring and reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes.

Asset and Liability Committee

This committee is chaired by Chris Ward and includes two other board member representatives. The Chief Executive Officer and Head of Treasury, Finance & Risk are also members of this committee. Other management personnel also attend. The committee ensures HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset, liability and capital management practices for the long-term financial viability of HomeStart
- manages the Risk Transfer Vehicle in accordance with an established charter, policies and procedures
- monitors all credit and market risks.

Board Credit Sub-Committee

This sub-committee is chaired by Chris Ward and includes two other board member representatives. The sub-committee meets on an ad-hoc basis to consider large lending transactions on behalf of the board.

Business planning, monitoring and accountability

The board, in conjunction with management, establishes and reviews strategic directions and objectives for the business on an annual basis, taking into account external environmental factors, commercial best practice and internal aims. These activities enable HomeStart to fulfil its purpose and deliver its long-term goals in alignment with government objectives, targets and policy directions.

Balanced scorecard methodologies are utilised by the board on a monthly basis to monitor all key areas of our business operations. The individual sub-committees of the board also provide feedback to the board on activities undertaken in discharging the duties under their respective charters.

HomeStart incorporates appropriate risk management standards and practices into all significant new business activities or initiatives, in line with the South Australian Government's Risk Management Policy Statement.

The board assesses the performance of the Chief Executive Officer on a regular basis against current strategic and business objectives.

Board member remuneration

Board member remuneration is determined by the Governor, on the advice of the Chief Executive of the Department of Premier and Cabinet. Board member remuneration information is provided at Note 8 to the financial statements.

Board member benefits

During or since the 2014-15 financial year, no board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included at Note 8 to the financial statements) because of a contract made with HomeStart by:

- the board member
- any organisation of which the board member is a member
- any entity in which the board member has a substantial financial interest
- an associate of the board member.

Executive appointment and remuneration

Responsibility for executive appointment rests with the board of management and details of executive remuneration are set out in Note 7 to the financial statements.

Risk management

HomeStart has an organisation-wide approach to managing risks to ensure they are identified and managed at all levels of our operations.

While risk management remains the primary responsibility of the board, each committee has specific roles and responsibilities in relation to risk management. The Audit Committee monitors all operational risks including a regular review of the areas of highest risk. The Asset and Liability Committee monitors all credit and market risks.

Risk management is an integral part of our everyday work and is supported by a framework that involves all staff and includes:

- a Risk Appetite Statement summarising HomeStart's general approach to the assumption of risk, and how this translates into capital at risk in different areas of the business
- identification, assessment (using Australian Standard 31000) and recording of risks through Tickit On Demand, our online risk management system
- continuous monitoring and reassessment of risks and internal controls, prompted by Tickit On Demand's interactive email capability and regular discussion at executive and team level
- the identification and assessment of risk incidents
- comprehensive reporting
- organisation-wide feedback on existing and emerging risks.

Strategic risk

Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise objectives, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, market context, ministerial and government objectives as well as internal capabilities.

Credit risk

Credit risk is inherent in HomeStart's core function of lending. Lending policies are founded on sound credit risk management and behavioural intelligence, which is incorporated into each stage of a customer's loan application and ongoing loan management.

Regular and comprehensive reporting and monitoring take place to ensure that our policies result in sound lending decisions and arrears management practices. These are underpinned by credit risk systems that have been developed using a combination of theory and experience drawn from the behaviour of our customer base.

Market risk

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's funding and interest rate risk management activities. These policies are monitored by the Asset and Liability Committee at its monthly meetings, by the Finance Sub-Committee at its fortnightly meetings, and daily by the Head of Treasury, Finance & Risk and the Corporate Treasurer. Our monitoring and forecasting is facilitated by sophisticated risk management software.

Operational risk

Operational risks are those inherent in the day-to-day functions of HomeStart. The Tickit On Demand risk management system facilitates a comprehensive assessment, communication and monitoring framework for these risks. Management regularly reviews its risk profiles to ensure appropriate internal controls are in place and operating effectively. Any incidents that occur are recorded in the Tickit On Demand system against the relevant risk and are investigated and dealt with promptly to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

Compliance, internal control and assurance

Our board is responsible for overseeing HomeStart's compliance performance. The Audit Committee, in its key role of assisting the board to fulfil its corporate governance objectives, is responsible for monitoring and reviewing HomeStart's compliance performance. HomeStart's organisational compliance framework supports the identification and assessment of our legal obligations and management and monitoring of our compliance responsibilities on an ongoing basis. This framework is reviewed on a regular basis to reflect any relevant legislative changes or any organisational structure and subsequent role changes.

HomeStart's board is responsible for ensuring robust and effective internal controls exist in order to minimise the risks inherent in our business. Internal controls are regularly reviewed through the risk management framework to ensure their adequacy and to identify any areas of improvement.

Executive and management are required to confirm to the board that effective risk management, internal control and compliance practices have operated throughout the year.

While internal fraud is a risk that HomeStart is exposed to in various areas of the business, no inappropriate activity has been identified. Strategies to prevent fraud are in place at all levels of our operations including:

- a register of financial authorisations
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation including a specific Fraud Governance Control Plan
- a strong internal culture and organisational values.

Internal and external audit

External audit is undertaken by the Auditor-General of South Australia and an Independent Audit Report is provided to the board. The report for this financial year can be found on page 79.

The following internal audit functions in 2014-15 were outsourced to Ernst & Young:

- operational audit based on a three-year rolling audit plan
- new lending and arrears management monthly audits of internal lending and loan manager performance.

Board members

Jim Kouts – Chair

Mr Kouts has significant commercial, strategic and governance experience across a range of national and State-based private and government sector organisations.

He is the Head of Corporate Affairs for GDF SUEZ Australian Energy, a Non-Executive Director of the Beston Global Food Company, a Non-Executive Director of the Adelaide Convention Bureau and a Strategic Adviser to Adelaide Airport Limited. He was formerly a Director of the Electricity Supply Industry Planning Council and Deputy Chair of the Botanic Gardens of Adelaide.

Mr Kouts was appointed to the board in November 2005 and appointed Chair in December 2013.

Chris Ward – Deputy Chair

Mr Ward is a professional director with experience in multiple business disciplines. He is a Director of the South Australian Film Corporation (SAFC) and chairs the Risk and Audit Committee at SAFC. As well as being an advisory board member to several private companies he is also an Executive Partner at UniSA. Until 2012, Mr Ward worked in banking and finance in senior executive roles.

Mr Ward was appointed to the board in June 2012 and appointed Deputy Chair in December 2013.

Lindsay Nicholson

Ms Nicholson is a lawyer who previously practiced in the areas of personal injury and family law. She was formerly a board member of the State Opera of South Australia and a member of the Legal Practitioners Disciplinary Tribunal.

Ms Nicholson was appointed to the board in December 2005.

Sue Edwards

Ms Edwards is a Chartered Accountant and former Partner of Deloitte Touche Tohmatsu. She specialises in providing business advice, including strategy, finance and taxation and she also has experience in the management of financial institutions as a former treasury manager.

Ms Edwards was appointed to the board in December 2010.

Maria Palumbo

Ms Palumbo is Chief Executive Officer of Common Ground Adelaide Limited, a not-for-profit affordable housing company, and also the Chair of the Community Housing Council of SA. She was formerly a Director of Housing SA, responsible for regulating and contract managing not-for-profit housing and homelessness services across the state. As an accountant by trade, she has broad experience in a range of industries, from government and non-government sectors to mining and manufacturing.

Ms Palumbo was appointed to the board in April 2013.

From left: Lindsay, Maria, Sue, Jim, Chris, Darryl, Roseanne

Darryl Royans

Mr Royans has extensive finance and management experience gained through a 40 year career with the Commonwealth Bank of Australia. Prior to retirement from the bank he held the position of State Manager for SA & NT Commercial Banking Risk. Mr Royans consults to a private financier, is a Justice of the Peace and is the Chair of the Alwyndor Aged Care Board.

Mr Royans was appointed to the board in December 2013.

Roseanne Healy

Ms Healy is a Non-Executive Director and corporate advisor with senior management experience in both the public and private sectors. She holds qualifications in commerce, economics and business administration. Ms Healy specialises in strategy, risk management, corporate governance and sustainability reporting. She has served on ASX listed, government, private and not-for-profit boards Australia-wide and is a former Chief Executive of SA Great. Current directorships include Grains Research and Development Corporation, Frankston Regional Aquatic Centre Pty Ltd, CUFA Ltd, Dairy Authority of South Australia and Nyamba Buru Yawuru Ltd.

Ms Healy was appointed to the board in March 2014.

Member	Board attendance	
	Eligible to attend#	Meetings attended
J Kouts (Chair)	13	13
C Ward (Deputy)	13	13
L Nicholson	13	12
S Edwards	13	12
M Palumbo	13	13
D Royans	13	12
R Healy	13	11

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	*	-
S Edwards (Chair)	7	7
L Nicholson	7	6
C Ward	-	-
M Palumbo	-	-
D Royans	-	-
R Healy	7	7

* J Kouts may attend as an alternate member on this committee.

Member	Asset & Liability Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	*	-
C Ward (Chair)	11	11
L Nicholson	-	-
S Edwards	-	-
M Palumbo	11	11
D Royans	11	10
R Healy	-	-

*J Kouts may attend as an alternate member on this committee.

Statutory information

Work Health & Safety (WHS)

HomeStart is committed to maintaining a safe work environment and to continuously improving systems that support it. We apply performance standards and measures that meet the 'Safety and Wellbeing in the Public Sector Strategy 2010-2015', which embeds the Premier's Zero Harm Vision.

We have direct links to other government departments who provide HomeStart with access to:

- workers compensations claims management
- rehabilitation and return to work activities
- a hotline for leaders to ensure accidents and incidents are promptly reported, enabling rehabilitation and return-to-work support and early intervention initiatives
- online training opportunities.

During 2014-15, the following work health and safety programs took place:

- annual workstation ergonomic assessments
- training for board members to assist in the fulfilment of their duties under the *Work, Health and Safety Act 2012*
- first aid training for relevant employees
- quarterly WHS Committee meetings
- half-yearly workplace inspections
- free flu vaccinations for all employees
- access to the free Employee Assistance Program
- Wellness Program that included:
  - Healthy Heart Checks
  - pedometer challenge
  - 'Chews to Change' program
  - regular fruit delivery.

WHS statistics

Table 1: Work health and safety prosecutions, notices and corrective action taken	Number
Notifiable incidents pursuant to WHS Act Part 3	0
Notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	0
Prosecutions pursuant to WHS Act Part 2 Division 5	0
Enforceable undertakings pursuant to WHS Act Part 11	0

Table 2: Agency gross workers compensation expenditure[1] for 2014-15 compared with 2013-14[2]

Expenditure	2014-15	2013-14	Variation + (-)	% Change + (-)
Hospital	$817.00	$0.00	$817.00	Undefined
Income maintenance	$5 413.68	$0.00	$5 413.68	Undefined
Investigations				
Legal expenses				
Lump sum				
Other				
Registered medical	$10 955.36	$1 751.00	$9 204.36	525.66
Rehabilitation				
Travel				
Total claims expenditure	**$17 186.04**	**$1 751.00**	**$15 435.04**	**881.50**

[1] before 3rd party recovery

[2] information available from the Self Insurance Management System (SIMS)

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation operating under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* to facilitate home ownership opportunities for South Australians, with a particular focus on low to moderate income households. HomeStart operates in a commercial manner to achieve financial and other performance benchmarks that are established and agreed with the state government.

HomeStart works with three distribution channels; the HomeStart offices; four Loan Managers (BankSA, The Home Loan Centre through KeyInvest Lending Services, Homeloans Plus and Bernie Lewis) and a broker network of 11 aggregators. HomeStart also provides other finance programs to support community housing and aged care accommodation.

Policy documents

The following policy documents are held by HomeStart and are available on request free of charge:

- HomeStart home loan brochures
- HomeStart guide to fees and charges
- HomeStart Privacy Policy
- HomeStart Credit Reporting Policy
- HomeStart Annual Report
- HomeStart customer newsletters.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4000. Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.

Access to personal information

Customers are entitled to obtain access to their personal information held by HomeStart in accordance with the *Freedom of Information Act 1991*. HomeStart may deny a request for access if required, obliged or authorised to do so under any applicable law, including the *Freedom of Information Act 1991*. Any request for access to personal information must be in writing and must be sent to the Freedom of Information Officer.

HomeStart will respond to all requests for information under the *Freedom of Information Act 1991* within 30 days of receipt of the request. Fees and charges may be payable.

Whistleblowers Protection Act 1993

No public interest information has been disclosed to a responsible officer of HomeStart Finance under the *Whistleblowers Protection Act 1993*.

Contractual arrangements

HomeStart did not enter into any procurement contracts during 2014-15 with a value greater than $4 million (GST inclusive).

Overseas travel

No HomeStart employees made an overseas trip during 2014-15 for work related purposes.

Public complaints

Category of complaint by subject	Number
Complaint received through the Credit and Investments Ombudsman	18
Collections	15
Policy	1
Service	2
Complaints direct to HomeStart	6
Policy	3
Service	3
Total complaints	**24**

HomeStart applies the Australian / NZ Standard - Guidelines for Complaint Management in Organisations. In line with this standard, we have an established complaints management policy in place, which is reviewed annually. A customer complaints register provides valuable information and feedback to ensure that policies and procedures remain current. We work hard to provide our customers with a high level of service and this is reflected in the low number of service-related complaints.

Consultancy expenditure

Consultant	Purpose of consultancy	Number	Cost
Total consultancies below $10 000	Various	3	$14 876
Total consultancies $10 000 and above		2	$43 314
Ernst & Young	Front End Loan System review		
Mind Salad	Risk division review		
Total consultancies		**5**	**$58 190**


MICHELLE GRATTAN
MAGPIES INK IN STRONG WIN OVER TIGERS
BACKLINES

Financials

Sustainable financial management

In 2014-15 HomeStart achieved the financial targets set by the state government, including an operating profit before tax of $15.6 million ($17.0 million, 2013-14) in line with budget, and representing a Return on Equity of 9.09% against a target of 9%.

HomeStart continued to provide substantial payments to government, amounting to $40.7 million for the year and totalling $456.9 million since our inception in 1989. Despite a challenging economic environment for HomeStart's business model, these results reflect our continued focus on achieving commercial objectives and prudent financial, risk and asset management policies balanced with our social obligations for customers and stakeholders.

Under the terms of our financial operating parameters with the state government, HomeStart received a Community Service Obligation (CSO) reimbursement of $5.9 million in 2014-15 ($5.6 million, 2013-14) in recognition of the cost of providing our non-commercial activities.

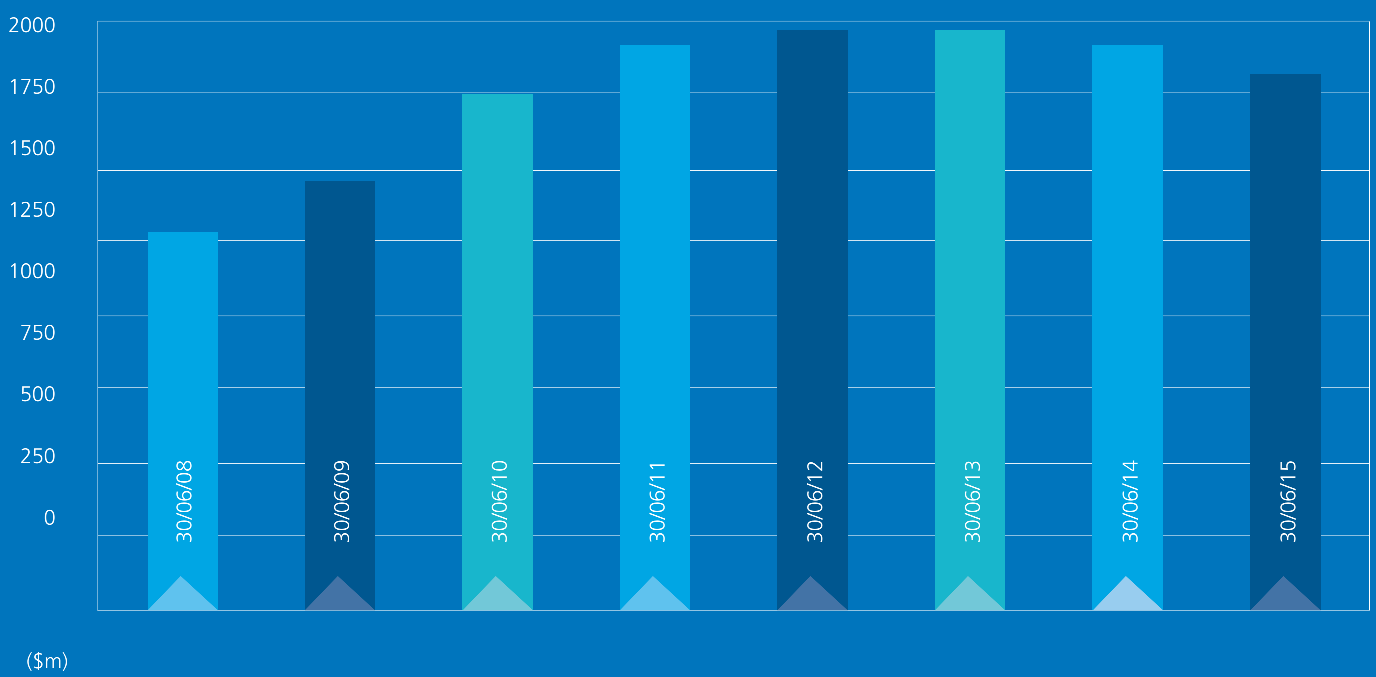
HomeStart's debt funding from the South Australian Government Financing Authority (SAFA) was $1666 million against a borrowing limit of $2105 million. Our capital adequacy ratio was 16.9% (15.0%, 2013-14) against a target of 12%. Under the agreed operating parameters, HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, where necessary.

Asset and liability management

The loan portfolio declined in 2014-15 to $1819.1 million ($1887.4 million, 2013-14) as lending volumes remained static, while loan discharge levels increased. Strong loan repayments also contributed to this result as borrowers continued to take advantage of the current low interest rate environment to make additional payments to their loans.

In response to market needs, HomeStart has maintained its commitment to the ongoing availability of some higher risk products while at the same time adopting a prudent approach to credit quality and provisioning. This is achieved by utilising credit risk management systems to inform lending decisions, and to allocate and monitor appropriate benchmarks for portions of the lending portfolio.

Portfolio size



Funding

HomeStart's lending is financed by its capital base and borrowings from the South Australian Government Financing Authority (SAFA). A global approach to treasury risk management has been adopted whereby risks are amalgamated from all activities and managed on a consolidated basis, taking advantage of offsetting risks.

A Treasury Master Document outlines all treasury policies, processes and procedures, and the limitations within which our treasury department must operate. The document also governs the structure and approach to the management of our debt portfolio.

The Asset and Liability Committee oversees the management of asset price setting and policy, and is ultimately responsible for the treasury operations of HomeStart. The Finance Sub-Committee, a sub-committee of the Asset and Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Risk Transfer Vehicle (RTV)

In July 2000, the HomeStart Board established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks. It is a division of HomeStart managed by the Asset and Liability Committee. A Loan Provision Charge is collected from loans settled as a partial contribution toward write-offs, which is invested in various asset classes in line with the RTV asset allocation strategy.

This year, the RTV returned 3.63% with a total return of 4.21% since inception. Initially funded with $20 million, the RTV net assets now total $49.6 million ($48.7 million, 2013-14).

HomeStart engages Mercer Investments, in an advisory capacity, to regularly review the RTV investment strategy to ensure it is appropriately matched to HomeStart's overarching investment and business objectives. Actuaries are also engaged to undertake an annual review of projected future loan loss levels.

Provisioning

HomeStart has recognised specific and collective provisions of $18.0 million ($18.3 million in 2013-14) against its loan portfolio. These provisions have been calculated in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), which stipulate that impairment losses should be recognised only if there is objective evidence of impairment as a result of one or more loss events that occurred after the loan was initially settled.

HomeStart also maintains a general reserve for credit losses of $7.5 million ($7.8 million, 2013-14). The amount of the reserve has been determined in accordance with provisioning policies generally accepted within the finance industry prior to the adoption of AIFRS, which we believe more accurately reflects the credit risk within the portfolio. The creation of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

Management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes a pool of capital sufficient to meet potential loan losses in the future.

Financial indicators	2009	2010	2011	2012	2013	2014	2015
Operating profit ($m)	10.2	16.8	15.5	14.4	16.4	17.0	15.6
Return on Equity	6.95%	11.41%	9.92%	9.22%	10.26%	10.21%	9.09%
Net interest margin	1.2%	0.94%	0.67%	0.84%	1.16%	1.09%	1.03%
Balance sheet strength							
Capital ($m)	138.9	157.9	155.1	154.5	164.2	169.3	173.2
Provisions ($m)	14.0	15.4	18.1	19.2	20.1	20.5	18.0
Loan assets ($m)	1432.7	1725.2	1903.2	1956.3	1943.8	1887.4	1819.1
RTV net assets ($m)	39.3	42.6	46.3	48.6	51.6	48.7	49.8
Net loan losses ($m)	0.07	0.04	0.13	0.54	0.84	0.90	0.40

Financial contributions to the state government

$456.9 million paid to the state government since inception.

Payment Type ($m)	1995[1] - 2009	2010	2011	2012	2013	2014	2015	TOTAL
Guarantee fee	97.2	10.7	23.8	26.9	27.1	28.0	27.5	241.2
SAFA[2] admin fee	7.7	1.1	1.1	1.1	1.1	1.1	1.0	14.2
Income tax	39.5	3.4	4.7	5.2	4.4	5.0	5.1	67.3
Dividends	47.2	5.6	7.3	6.2	6.3	7.2	7.1	86.9
Capital Repatriation	47.3	0.0	0.0	0.0	0.0	0.0	0.0	47.3
Total paid	**238.9**	**20.8**	**36.9**	**39.4**	**38.9**	**41.3**	**40.7**	**456.9**

[1] no payments made prior to 1995

[2] South Australian Government Financing Authority

Certification of the Financial Statements

For the year ended 30 June 2015

We certify that the attached general purpose financial statements for HomeStart Finance:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards
- are in accordance with the accounts and records of HomeStart Finance
- present a true and fair view of the financial position of HomeStart Finance as at 30 June 2015 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by HomeStart Finance for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe HomeStart Finance will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the board members.

Jim Kouts
Chair
15 September 2015

Chris Ward
Deputy Chair
15 September 2015

John Oliver
Chief Executive Officer
15 September 2015

Trevor Mitton
Acting Head of Treasury, Finance & Risk
15 September 2015

Statement of Comprehensive Income
For the year ended 30 June 2015

	Note No.	2015 $'000	2014 $'000
Interest income	4	105 624	112 663
Interest expense	4	(49 496)	(54 164)
Net interest income	**4**	**56 128**	**58 499**
Other income	5	13 170	15 303
Loan manager fees		(5 830)	(6 210)
Employee benefits expenses	6	(11 057)	(10 910)
Bad and impaired loans expense	10	(1 460)	(4 200)
Depreciation and amortisation expense	11	(1 822)	(917)
Other expenses	12	(6 162)	(6 424)
Profit before income tax equivalents and guarantee fee expenses		42 967	45 141
Government guarantee fee	9	(27 390)	(28 109)
Profit before income tax equivalents		**15 577**	**17 032**
Income tax equivalents expense	2.6	(4 673)	(5 109)
Profit after income tax equivalents		**10 904**	**11 923**
Other Comprehensive Income *Items that will be reclassified subsequently to profit before income tax equivalents when specific conditions are met:*			
Change in fair value of derivatives		(382)	350
Change in fair value of available-for-sale assets	15.4	(69)	(2)
Total other comprehensive income		**(451)**	**348**
Total comprehensive result		**10 453**	**12 271**

The profit after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2015

	Note no.	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	31.1	1 952	3 320
Financial investments designated at fair value through profit or loss	14	104 794	108 012
Financial investments – available-for-sale	15	12 005	11 971
Loans and advances	16	1 734 408	1 798 177
Other financial assets	17	1 147	769
Intangible assets	18	4 333	4 458
Property, plant and equipment	19	1 049	836
Other assets	20	818	416
Total assets		**1 860 506**	**1 927 959**
Liabilities			
Payables	22	5 291	6 322
Derivative financial instruments	33.2.2	6 310	5 929
Short-term borrowings	23	694 456	635 134
Employee benefits	24	2 548	2 357
Income tax equivalents payable	25	2 322	2 751
Provision for dividend	25	-	554
Long-term borrowings	23	972 000	1 102 000
Other liabilities	26	4 347	3 591
Total liabilities		**1 687 274**	**1 758 638**
Net assets		**173 232**	**169 321**
Equity			
Reserves	27	1 919	2 671
Retained earnings		171 313	166 650
Total equity		**173 232**	**169 321**

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments	28
Contingent assets and contingent liabilities	29

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2015

	Note no.	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Available-for-sale revaluation reserve $'000	Total $'000
Balance at 30 June 2013		**160 905**	**8 776**	**(6 279)**	**803**	**164 205**
Profit after income tax equivalent for 2013-14		11 923	-	-	-	11 923
Derivative gain recognised directly in equity	2.10.6 33.4.2	-	-	350	-	350 -
Available-for-sale gain recognised directly in equity		-	-	-	(2)	(2)
Total comprehensive result for 2013-14		**11 923**	**-**	**350**	**(2)**	**12 271**
Transfer to/from credit loss reserve	27	977	(977)	-	-	-
Transactions with SA Government as owner						
Dividends paid/payable	25	(7 155)	-	-	-	(7 155)
Balance at 30 June 2014		**166 650**	**7 799**	**(5 929)**	**801**	**169 321**
Profit after income tax equivalent for 2014-15		10 904	-	-	-	10 904
Derivative gain recognised directly in equity	2.10.6 33.4.2	-	-	(382)	-	(382)
Available-for-sale gain recognised directly in equity		-	-	-	(69)	(69)
Total comprehensive result for 2014-15		**10 904**	**-**	**(382)**	**(69)**	**10 453**
Transfer to/from credit loss reserve	27	301	(301)	-	-	-
Transactions with SA Government as owner						
Dividends paid/payable	25	(6 542)	-	-	-	(6 542)
Balance at 30 June 2015		**171 313**	**7 498**	**(6 311)**	**732**	**173 232**

All changes in equity are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2015

	Note no.	2015 $'000	2014 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		48	71
Investments		1 178	1 786
Loans and advances		100 970	107 408
Fees and commissions received		2 716	2 646
Bad debts recovered		192	298
Receipts from SA Government			
EquityStart grant received		622	785
Community Service Obligation subsidy received		5 889	5 614
Other receipts		621	474
Cash generated from operations		**112 236**	**119 082**
Cash outflows			
Employee benefits payments		(10 422)	(10 704)
Payments for supplies and services		(6 743)	(6 214)
Payments to loan managers		(5 839)	(6 000)
Borrowing costs paid		(50 773)	(55 012)
Government guarantee fee paid		(27 476)	(28 042)
Tax equivalent paid		(5 103)	(5 017)
Cash used in operations		**(106 356)**	**(110 989)**
Net cash generated from operating activities	**31.2**	**5 880**	**8 093**

Statement of Cash Flows
For the year ended 30 June 2015

	Note no.	2015 $'000	2014 $'000
Cash flows from investing activities			
Cash inflows			
Shared appreciation component of Breakthrough Loans repaid	34.4	9 835	7 943
Proceeds from maturity of available-for-sale investments		1 000	4 000
Proceeds from investments designated at fair value through profit or loss		40 257	51 772
Customer loans repaid		386 967	342 157
Cash generated from investing activities		**438 059**	**405 872**
Cash outflows			
Purchase of property, plant and office and computer equipment		(354)	(104)
Purchase of intangibles		(448)	(1 313)
Purchase of available-for-sale investments		(1 183)	(2 078)
Purchase of investments designated at fair value through profit or loss		(41 000)	(50 400)
Shared appreciation component of Breakthrough Loans settled	34.4	(5 066)	(5 962)
Customer loans settled		(319 440)	(285 558)
Cash used in investing activities		**(367 491)**	**(345 415)**
Net cash generated from investing activities		**70 568**	**60 457**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		1 229 206	641 557
Cash generated from financing activities		**1 229 206**	**641 557**
Cash outflows			
Dividends paid to SA Government		(7 137)	(7 177)
Repayment of borrowings		(1 299 885)	(703 983)
Cash used in financing activities		**(1 307 022)**	**(711 160)**
Net cash used in financing activities		**(77 816)**	**(69 603)**
Net (decrease)/increase in cash and cash equivalents		**(1 368)**	**(1 053)**
Cash and cash equivalents at the beginning of the period		3 320	4 373
Cash and cash equivalents at the end of the period	**31.1**	**1 952**	**3 320**

The above statement should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements
For the year ended 30 June 2015

Note 1
Objectives of HomeStart Finance

HomeStart was established as a for-profit statutory corporation and operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*. It reports to the Minister for Housing and Urban Development.

HomeStart's reason for being is to make home ownership a reality for more people in more ways.

HomeStart Home Loan

HomeStart provides home loans to low to moderate income households and other needs groups. The HomeStart Home Loan is the primary loan product and the outstanding value of the product as at 30 June 2015 was $1680.9 million ($1748.7 million, 2013-14).

Subsidies

HomeStart provides subsidised Advantage Loans of up to $45 000 to lower income earners. For loans issued after 3 February 2014, the loan is interest bearing from the drawdown date, prior to that date the maximum loan was $30 615 and the loan was interest free if repaid within five years. The Advantage Loan interest is calculated by reference to the Consumer Price Index (CPI). As at 30 June 2015 the interest rate applying to Advantage Loans was 1.32% (3.88%, 2013-14). The outstanding value of Advantage Loans at 30 June 2015 was $51.9 million ($46.9 million, 2013-14).

For the year ended 30 June 2015 HomeStart received a Community Service Obligation (CSO) subsidy payment of $3.0 million ($2.7 million, 2013-14) from the Department of Treasury and Finance for the Advantage Loan subsidy provided.

HomeStart also provides subsidised EquityStart Loans of up to $50 000 to current Housing SA tenants. The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI. Regular repayments on the EquityStart Loan are optional, and payment can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2015 was $36.2 million ($37.9 million, 2013-14).

HomeStart received grant funding from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans.

Funding

HomeStart funds its mortgage activities from capital and by borrowing from the South Australian Government Financing Authority (SAFA).

Note 2
Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Statement of compliance

These financial statements have been prepared in compliance with Section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

HomeStart has applied Australian Accounting Standards that are applicable to for-profit entities, as HomeStart is a for-profit entity. Australian accounting standards and interpretations that have recently been issued and amended but not yet effective have not been adopted by HomeStart for reporting period ending 30 June 2015. Refer to note 3.

2.2 Basis of preparation

The preparation of the financial statements require:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying HomeStart's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported

- compliance with accounting policy statements issued pursuant to Section 41 of the *Public, Finance and Audit Act 1987*. In the interest of public accountability and transparency the accounting policy statements require the following disclosures, which have been included in this financial report:
  - revenues, expenses, financial assets and liabilities where the counter party transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of $100 000 for separate identification of these items applies
  - expenses incurred as a result of engaging consultants
  - employee targeted voluntary separation package information
  - employees whose normal remuneration is equal to or greater than the base executive remuneration level (within $10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by HomeStart to those employees.

HomeStart's Statement of Comprehensive Income, Statement of Financial Position, and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for the following assets and liabilities that are stated at their fair values: derivative financial instruments, financial investments at fair value through profit or loss, financial investments classified as available-for-sale and subsidised loans and advances.

The Statement of Cash Flows has been prepared on a cash basis.

The financial statements have been prepared based on a twelve month period and are presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2015 and the comparative information presented.

2.3 Reporting entity

The financial report covers HomeStart as an individual entity. It is a statutory authority of the State of South Australia, established pursuant to the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*. HomeStart does not control any investee, has no joint arrangements and no interest in unconsolidated structured entities.

2.4 Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific accounting policy statement or specific Australian Accounting Standards have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements, unless impracticable.

Where it has been impractical to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

Where HomeStart has applied an accounting policy retrospectively, retrospectively restated items in the financial statements or reclassified items in the financial statements, it has provided three Statements of Financial Position and related notes.

The restated comparative amounts do not replace the original financial statements for the preceding period.

2.5 Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars ($'000).

2.6 Taxation

In accordance with Treasurer's Instructions 22 *Tax Equivalent Payments*, HomeStart is required to pay to the SA Government an income tax equivalent. The income tax equivalent liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to the net profit. The current income tax liability relates to the income tax expense outstanding for the current year.

HomeStart is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred by HomeStart on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable
- receivables and payables, which are stated with the amount of GST included.

HomeStart, being a provider of financial services, is classified as an input taxed entity for GST purposes and consequently absorbs GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as part of operating cash flows.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the Australian Taxation Office. If GST is not payable to, or recoverable from the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

2.7 Event after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2015 and before the date the financial statements are authorised for issue, where the events provide information about conditions that existed at 30 June 2015.

Note disclosure is made about events between 30 June 2015 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2015 and which may have a material impact on the results of subsequent years.

2.8 Income

Income is recognised in HomeStart's Statement of Comprehensive Income to the extent it is probable that the flow of economic benefits to the entity will occur and can be reliably measured.

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

2.8.1 Interest income – non-subsidised loans

Interest income is recognised as it accrues using the effective interest rate method, except for impaired loans where interest income is recognised as it is recovered (as described in note 2.8.3).

2.8.2 Interest income – subsidised loans

Where HomeStart provides subsidised loans, such as Advantage Loans and EquityStart Loans, at rates lower than market interest rates, the initial recognition of these loans at fair value will result in an initial loss being generated in the Statement of Comprehensive Income, being the difference between the amount disbursed and the fair value. Fair value is measured by discounting the expected cash flows using a market interest rate.

Interest income on these subsidised loans is brought to account using the effective interest rate method at a risk-free rate of interest, based on four year (for Advantage Loans settled before 3 February 2014), seven year (for Advantage Loans settled after 3 February 2014) and 10 year (for EquityStart Loans) South Australian Government Financing Authority (SAFA) Bonds.

2.8.3 Interest income – both non-subsidised and subsidised impaired loans

HomeStart ceases accruing interest income on loans when it considers that HomeStart would be unable to recover that interest income from either the customer or from the sale of the security. Interest on these loans is only brought to account when realised or when loans are returned to accruing status.

Loans are assessed as impaired where they are contractually more than 90 days overdue with security insufficient to cover principal and arrears of interest, or where there is doubt as to the full recovery of principal and interest.

An impaired loan may be restored to accrual status only if all arrears have been eliminated by payments from the customer, and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

2.8.4 Loan origination fees received or receivable

Income directly attributable to the origination of loans is deferred and recognised in the Statement of Comprehensive Income as part of the effective interest rate calculation. This method results in origination income being recognised over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed periodically to ensure the amortisation methodology is appropriate.

2.8.5 Government grants

Grants from the SA Government are recognised at their fair value where there is reasonable assurance that the grant will be received and HomeStart will comply with all attached conditions.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. The credit quality subsidies compensate HomeStart for additional credit quality risk across all HomeStart loan products as a result of lending to customers that would not normally be eligible for loans from commercial lenders.

In addition, on 30 April 2012 the Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax Return on Equity (ROE) of 9% (if required). The first such payment was received by HomeStart in the financial year ended 30 June 2012, no payment was received for any of the following financial years.

HomeStart also receives grant funds from the Department for Communities and Social Inclusion to compensate for costs incurred in relation to EquityStart Loans.

Government grants relating to costs are deferred and recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

2.8.6 Investment income

For financial investments designated at fair value through profit or loss, changes in fair value of investments (both realised and unrealised) are recognised in the Statement of Comprehensive Income as they occur.

Distribution income is recognised when received.

For financial investments classified as available-for-sale, interest income is recognised as it accrues.

2.8.7 Net gain/loss from disposal of non-financial assets

Income from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and has been determined by comparing proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as an income or an expense.

2.8.8 Other income

Other income is recognised when earned or recovered and is measured at the fair value of the consideration received or receivable.

2.9 Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from HomeStart will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

2.9.1 Interest expense

Interest payable is expensed in accordance with the accounting policy described at note 2.11.1.

2.9.2 Government guarantee fee

The government guarantee fee is expensed as it becomes due at the rate imposed by the Department of Treasury and Finance.

2.9.3 Bad and impaired loans expense

Bad and impaired loans are expensed in accordance with the accounting policy described in note 2.10.3.

2.9.4 Loan origination fees paid or payable

Fees directly attributable to the origination of loans are deferred and recognised in the Statement of Comprehensive Income as part of the effective interest rate calculation. This method results in origination fees being expensed over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed periodically to ensure the amortisation methodology is appropriate.

2.9.5 Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages, salaries, non-monetary benefits and leave entitlements.

Employee benefits expenses are recognised in accordance with the accounting policy described at note 2.11.6.

The amount of superannuation charged to the Statement of Comprehensive Income represents the contribution made by HomeStart to the superannuation plan in respect of current services of current HomeStart employees.

2.9.6 Depreciation and amortisation expense

Depreciation and amortisation expense is recognised in accordance with the accounting policy described at note 2.10.5.4.

2.9.7 Operating lease expense

Operating lease payments are charged to the Statement of Comprehensive Income on a basis which is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by HomeStart in respect of operating leases has been recorded as a reduction of rental expense over the lease term, on a straight line basis.

2.9.8 Tax equivalents expense

The tax equivalents expense is recognised in accordance with the accounting policy described at note 2.6.

2.10 Assets

Assets are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Assets have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

Current and non-current classes are not generally presented separately.

2.10.1 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position include cash at bank and on hand and other short-term, highly liquid investments with maturities of three months or less that are readily converted to cash and which are subject to insignificant risk of changes in value.

Cash is measured at its nominal value.

2.10.2 Financial instruments

During the current and comparative financial years HomeStart had the following types of financial instruments:

- cash and cash equivalents (refer to accounting policy note 2.10.1)
- loans and advances (refer to accounting policy note 2.10.3)
- investments – managed funds, bonds, term deposits and the shared appreciation component of Breakthrough Loans (refer to accounting policy note 2.10.4.1)
- derivative financial instruments (refer to accounting policy note 2.10.6)
- financial liabilities (refer to accounting policy note 2.11).

Under AASB 139, financial instruments are required to be classified into one of five categories which will, in turn, determine the accounting treatment of the financial instrument. The classifications are:

- loans and receivables – initially measured at fair value and then at amortised cost using the effective interest rate method
- held-to-maturity financial assets – measured at amortised cost
- financial instruments designated at fair value through profit or loss – measured at fair value
- available-for-sale financial assets – measured at fair value
- financial liabilities (not at fair value through profit or loss) – measured at amortised cost.

HomeStart has the following classes of financial instruments:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets at fair value through profit or loss

HomeStart's policy is to designate a financial asset at fair value through profit or loss if it is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investments strategy, and information about the financial asset is provided internally on that basis to HomeStart's key management personnel.

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in managed funds and term deposits as financial assets at fair value through profit or loss.

The net gain or loss includes any dividend or interest earned on the financial asset.

Derivatives are also categorised as financial assets at fair value through profit and loss unless they are effective hedges of cash flow.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified as any of the other categories and are stated at fair values.

Gains or losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

As at 30 June 2015 HomeStart classified its investments in bonds issued by state governments and non-government institutions as available-for-sale.

Financial liabilities

HomeStart's short-term and long-term borrowings are financial liabilities.

Impairment

HomeStart assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Impairment of financial assets carried at amortised cost

The recoverable amount of HomeStart's investments in loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The carrying amount of assets carried at amortised cost is reduced to the recoverable amount through the use of a provision account. The amount of the loss is recognised in the Statement of Comprehensive Income. An impairment loss in respect of loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reference should be made to accounting policy note 2.10.3 for additional information in relation to the assessment of impairment of loans and receivables.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in the available-for-sale revaluation reserve is reclassified to profit or loss.

The amount of the cumulative loss that is reclassified is the difference between the acquisition cost (net of any amortisation) and current fair value, less any impairment loss previously recognised in profit or loss.

2.10.3 Loans and advances

Loans measured at amortised cost

Loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking into account principal repayments and impairment losses.

For subsidised loans, fair value is less than their face value. On settlement of subsidised loans an initial loss is recognised as an expense, being the difference between the face and fair values, which is then recognised as income over the expected life of the loan, using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows, HomeStart considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Provision for impairment

HomeStart assesses at each financial year-end whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the end of the financial year ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Loans and advances are individually assessed for impairment. If HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, geographical location, collateral, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of projected cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, HomeStart uses its experienced judgement to estimate the amount of an impairment loss.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to take into consideration HomeStart's actual loss experience.

For loans and receivables, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision account and the amount of the loss is included in the Statement of Comprehensive Income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

Bad debts

All bad debts are written-off in the period in which they are classified as not recoverable. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

2.10.4 Investments

2.10.4.1 Financial assets at fair value through profit or loss

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in managed funds and term deposits as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

Shared appreciation component of the Breakthrough Loan

The Breakthrough Loan facility includes two loan components:

- a standard loan component with interest rates and repayments which operate under identical terms to HomeStart's current standard loan product. This portion of the Breakthrough Loan is initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method and taking into account principal repayments and impairment losses
- a shared appreciation component where repayment of the loan balance is generally deferred until the sale of the property upon which time the loan balance is repaid along with a scheduled percentage of the appreciated value of the property.

The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

2.10.4.2 Available-for-sale financial assets

When purchased, available-for-sale investments are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve except for interest, which is recognised directly in the Statement of Comprehensive Income. When the investment is sold, the cumulative gain or loss relating to the investment is transferred from the available-for-sale revaluation reserve to the Statement of Comprehensive Income.

Where there is objective evidence of impairment of an available-for-sale investment, the cumulative loss relating to that asset is removed from equity and recognised in the Statement of Comprehensive Income. If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the Statement of Comprehensive Income.

2.10.5 Non-financial assets

2.10.5.1 Property, plant and equipment

Property, plant and equipment are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value after allowing for accumulated depreciation (refer to note 2.10.5.4) and impairment losses.

Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. If, however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recognised at book value i.e. the amount recorded by the transferor immediately prior to transfer.

Where the payment for an asset is deferred, HomeStart measures the obligation at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

At the expiration of the lease of its office accommodation, HomeStart is required in accordance with the lease agreement to return the premises to its original condition ('make good'). The costs involved in doing so have been included in the cost of HomeStart's leasehold improvements. This amount has been calculated as an estimate of future costs and discounted to a present value.

All property, plant and equipment with a value equal to or in excess of $1000 are capitalised.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2.10.5.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss (refer to note 2.10.5.4).

The useful lives of intangible assets are assessed to be either finite or indefinite. HomeStart only has intangible assets with finite lives. The amortisation period and amortisation method for intangible assets are reviewed on an annual basis.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition (identifiability, control and existence of future economic benefits) and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*, and when the amount of expenditure is greater than or equal to $1000.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the useful life of the asset, which is generally between four and 10 years.

Costs in relation to website development, building or enhancing a website to the extent they represent probable future economic benefits controlled by HomeStart that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits. Maintenance costs are expensed.

2.10.5.3 Impairment and revaluation

In accordance with Accounting Policy Framework III Asset Accounting Framework:

- all tangible assets are valued at written down current cost
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than $1 million and estimated useful life is greater than three years.

If at any time HomeStart considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

All tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.10.5.4 Depreciation and amortisation of non-financial assets

Non-financial assets having a limited useful life, are systematically depreciated or amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as office and computer equipment.

The residual values, useful lives of all major assets held by HomeStart and amortisation methods are reassessed and adjusted if appropriate on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimates.

The value of leasehold improvements is depreciated over the estimated useful life of each improvement or the unexpired period of the relevant lease, whichever is shorter.

Depreciation and amortisation of non-financial assets are calculated on a straight line basis over the estimated useful life of the following classes of assets for the current and comparative periods as follows:

Class of asset	Depreciation method	Useful life (years)
Leasehold improvements	Straight line	10
Other office and computer equipment	Straight line	2-10
Furniture and fittings	Straight line	3-10
Intangible assets	Straight line	4-10

2.10.6 Derivative financial instruments

HomeStart is exposed to changes in interest rates arising from financing activities and it uses derivatives to hedge this risk. Derivative financial instruments are not held for speculative purposes.

HomeStart does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at cost and, subsequent to initial recognition, are measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows determined using the yield curve at year end.

HomeStart designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedges). For the current reporting and comparative periods HomeStart has only cash flow hedges.

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. HomeStart also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 33.2.2. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

2.10.6.1 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in equity in the derivatives valuation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

Effectiveness tests are performed on all derivative financial instruments to determine if they continue to be effective in managing the hedged risk originally intended when entered into by HomeStart. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in equity is reversed through the Statement of Comprehensive Income with all subsequent gains or losses recognised through the Statement of Comprehensive Income.

2.11 Liabilities

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

2.11.1 Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost with any difference between the initially recognised amount and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

2.11.2 Operating leases

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight line basis is representative of the pattern of benefits derived from the leased assets.

2.11.3 Lease incentive

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the consideration agreed for the use of the leased asset. Incentives received to enter into operating leases are recognised as liabilities.

The aggregate benefits of lease incentives received by HomeStart in respect of operating leases have been recorded as a reduction of rental expense over the lease term, on a straight-line basis.

2.11.4 Fair value measurement

AASB 13 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

HomeStart classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 - traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date
- Level 2 - not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly
- Level 3 - not traded in an active market and are derived from unobservable inputs.

The valuation processes and fair value changes are reviewed by the Head of Treasury, Finance & Risk and Audit Committee at each reporting date.

Non-financial assets

In determining fair value, HomeStart has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset), and the asset's highest and best use (that is physically possible, legally permissible, financially feasible).

HomeStart's current use is the highest and best use of the asset unless other factors suggest an alternative is feasible. As HomeStart did not identify any factors to suggest an alternative use, fair value measurement was based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than $1 million, or had an estimated useful life that was less than three years, are deemed to approximate fair value.

Refer to note 21 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements for non-financial assets.

Financial assets/liabilities

The fair values of assets or liabilities traded in active markets are based on quoted market prices for identical assets or liabilities at balance date. The fair value of other financial assets or liabilities is determined using valuation techniques. These techniques maximise the use of observable market data where it is available. HomeStart uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Refer to note 34 for disclosure regarding fair value disclosure and categorisation of financial assets.

2.11.5 Payables

Payables include creditors, accrued expenses, employment on-costs, interest, guarantee fee and loan manager fees.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of HomeStart.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employment on-costs include superannuation contributions and payroll tax with respect of outstanding liabilities for salaries and wages, long service leave and annual leave.

All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date the invoice is first received (in accordance with Treasurer's Instruction 11 *Payment of Creditors*).

2.11.6 Employee benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term benefits are measured at nominal amounts.

Long-term service benefits

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with a duration that match, as closely as possible, the estimated future cash outflows.

Wages, salaries, annual leave and sick leave

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The annual leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than twelve months, the liability will be measured at present value.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

HomeStart makes contributions to several state government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board and various externally managed superannuation schemes.

2.12 Other provisions

Provisions are recognised when HomeStart has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risk specific to the liability.

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2015 provided by a consulting actuary engaged through the Public Sector Workforce Relations Division of the Department of the Premier and Cabinet. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

HomeStart is responsible for the payment of workers compensation claims.

2.13 Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal values.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal values.

Unrecognised contractual commitments and contingencies are disclosed net of amount of GST recoverable from, or payable to the Australian Taxation Office. If GST is not payable to, or recoverable from the Australian Taxation Office, the commitments and contingent liabilities are disclosed on a gross basis.

2.14 Insurance

HomeStart has arranged through SA Government Captive Insurance Corporation (SAICORP), to insure all major risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held.

2.15 Accounting judgements, estimates and assumptions

The preparation of the financial statements requires the use of certain accounting estimates and requires HomeStart to exercise its judgement in the process of applying HomeStart's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The areas involving a higher degree of estimate and judgement that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual financial reporting period are outlined below:

Area of estimate and judgement	Note no.
Investments at fair value through profit or loss (excluding the shared appreciation component of Breakthrough Loan)	2.10.4.1, 34.2, 34.3
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough Loan	2.10.4.1, 34.2, 34.3
Investments – available-for-sale	2.10.4.2, 34.2, 34.3
Fair value of subsidised loans and advances	2.10.3
Loan origination fees received or receivable	2.8.4
Loan origination fees paid or payable	2.9.4
Provision for impairment of loans and advances	2.10.3
Unearned income (EquityStart grant)	2.8.5, 26.2
General reserve for credit losses	2.10.3, 27
Derivative financial instruments	2.10.6, 34.2
Revaluation of make good provision	26.3, 19

Note 3
New and revised accounting standards

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by HomeStart for the period ending 30 June 2015.

HomeStart did not voluntarily change any of its accounting policies during 2014-15.

HomeStart has assessed the impact of the new and amended standards and interpretations, these are outlined in the following table:

Reference	Title	Summary	Application date of standard	Impact on financial report	Application Date for HomeStart
AASB 9	Financial Instruments	AASB 9 provides the principles for the classification, measurement, recognition and disclosure associated with financial assets and liabilities. It also includes new rules for hedge accounting. In Dec 2014, the AASB made further amendments to AASB 9's classification and measurement rules and also introduced a new impairment model. AASB 9 has now been finalised The amending standards make various consequential amendments as a result of the issuance of AASB 9 and amend the mandatory effective date of AASB 9 to 1 Jan 2018.	1 Jan 2018	HomeStart has commenced reviewing the measurement of its financial assets against the new classification and measurement requirements in AASB 9. The classification at the initial date of application of AASB 9 will depend on the facts existing at that date. HomeStart's assessment will not be confirmed until closer to that time. As part of the implementation of AASB 9 HomeStart will perform an assessment of financial assets and determine if they will be measured at amortised cost or fair value.	1 July 2018
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023, & 1038 and Interpretations 10 & 12).	When AASB 9 is applied, AASB2009-11 and AASB 2010-7 must also be applied at the same time. These standards make consequential amendments to other standards as a result of the issuance of AASB 9.		It would appear that the available for sale assets would meet the condition to satisfy the classification at fair value through profit or loss. Changed disclosure requirements will also apply.	
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127).			The new impairment model is an expected credit loss model which may result in earlier recognition of credit losses.	
AASB 2013-9	Amendments to Australian Accounting Standards, Conceptual Framework, Materiality and Financial Instruments.	AASB 2013-9 amends the mandatory effective date of AASB 9 to 1 Jan 2017 instead of 1 Jan 2015.			
AASB 2014-8	Amendments to Australian Accounting Standards arising from AASB 9 - application of AASB 9				
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9				

Note 4
Net interest income

Interest received/receivable	2015 $'000	2014 $'000
Loans and advances	100 759	107 361
Subsidised loans effective interest income	3 888	3 831
Subsidised loans fair value expense	(1 787)	(1 297)
Loan origination income amortisation	2 715	2 708
Deposits with banks	49	60
Total interest received/receivable	**105 624**	**112 663**

Interest paid/payable		
Borrowings from SAFA	(49 496)	(54 164)
Total interest paid/payable	**(49 496)**	**(54 164)**
Net interest income	**56 128**	**58 499**

Note 5
Other income

Other income received/receivable	2015 $'000	2014 $'000
Fees and charges	3 327	3 456
Bad debts recovered	192	298
Unrealised change in fair value of loans [1]	565	2 375
Realised change in fair value of loans	507	372
Managed funds distribution	297	896
Interest received from investments at fair value through profit or loss	923	632
Interest received from available-for-sale investments	577	649
EquityStart grant	813	925
Community Service Obligation (CSO) subsidy	5 889	5 614
Other	80	86
Total other income	**13 170**	**15 303**

[1] The shared appreciation component of the Breakthrough Loan is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. The profits arising from changes in fair value are unrealised, unrealised losses, if any, are disclosed in note 12, Other expenses.

EquityStart grant funds and CSO subsidy received

During the financial year, HomeStart received $0.6 million ($0.8 million, 2013-14) in grant funds from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans. Refer to note 26.2 for information in relation to the recognition of EquityStart grant income.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 the Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax return on equity (ROE) of 9% (if required). No such payment was received in the financial year ended 30 June 2015 ($nil, 2013-14).

Note 6
Employee benefits expenses

Employee benefits expenses	2015 $'000	2014 $'000
Salaries and wages	9 164	8 881
Long service leave (LSL)	272	249
Annual leave	(9)	199
Employment on-costs – superannuation	866	831
Employment on-costs – other	465	462
Workers compensation	34	24
Board and committee fees	265	264
Total employee expenses	**11 057**	**10 910**

Note 7
Employee remuneration and number of employees

Remuneration of employees	2015 No.	2014 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
$141 500 to $151 499	3	2
$151 500 to $161 499	1	1
$161 500 to $171 499	-	1
$171 500 to $181 499	-	1
$191 500 to $201 499	1	-
$241 500 to $251 499	-	1
$261 500 to $271 499	2	1
$271 500 to $281 499	-	1
$351 500 to $361 499	-	1
$381 500 to $391 499	1	-
Total	**8**	**9**

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, termination payments, superannuation contributions, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits and salary sacrifice benefits. The total remuneration received by these employees for the year was $1.70 million ($1.92 million, 2013-14).

Number of employees

HomeStart employed 107 people at the end of the reporting period (105, 2013-14).

Note 8
Key management personnel

(a) Board members

The following persons held the position of governing board member of HomeStart during the whole of the financial year:

Mr Jim Kouts (Chair)

Mr Chris Ward (Deputy Chair)

Ms Lindsay Nicholson

Ms Sue Edwards

Ms Maria Palumbo

Mr Darryl Royans

Ms Roseanne Healy

(b) Key management personnel compensation

The compensation for the key management personnel for the years ended 30 June 2015 and 2014 is set out below. The key management personnel are the governing board members and Senior Management Team (including the Chief Executive Officer) who have responsibility for the strategic direction and management of HomeStart.

The compensation of key management personnel included in 'Employee Benefits Expenses' (see note 6) is as follows:

	2015 $'000	2014 $'000
Short-term employee benefits	1 036	1 007
Long-term employee benefits (long service leave)	51	49
Long-term employee benefits (amounts paid to superannuation plans)	96	96
Total key management personnel compensation	**1 183**	**1 152**

Remuneration of governing board members

The number of HomeStart governing board members whose remuneration received or receivable falls within the following bands:

	2015 No.	2014 No.
$10 000 - $19 999	-	2
$20 000 - $29 999	-	2
$30 000 - $39 999	4	2
$40 000 - $49 999	2	3
$50 000 - $59 999	1	-
Total number of governing board members	**7**	**9**

The total remuneration received and receivable by those governing board members was $0.29 million ($0.29 million, 2013-14) which includes fringe benefits and superannuation contributions.

Apart from the details disclosed in this note, no governing board member has entered into a contract with HomeStart since the end of the previous financial year and there were no contracts involving governing board members' interests existing at year-end.

Note 9
Government guarantee fee

	2015 $'000	2014 $'000
Government guarantee fee paid or payable	27 390	28 109
Total government guarantee fee paid or payable	**27 390**	**28 109**

HomeStart paid a guarantee fee of 1.6% of outstanding borrowings to the Department of Treasury and Finance in 2014-15 (1.6%, 2013-14).

Note 10
Bad and impaired loans expense

	2015 $'000	2014 $'000
Bad and impaired loans expense	359	897
Increase in provision for impairment	1 101	3 303
Total bad and impaired loans expense	**1 460**	**4 200**

Note 11
Depreciation and amortisation expense

Depreciation expense	2015 $'000	2014 $'000
Other office and computer equipment	291	265
Total depreciation	**291**	**265**
Amortisation expense		
Leasehold improvements	930	225
Intangible assets	601	427
Total amortisation	**1 531**	**652**
Total depreciation and amortisation	**1 822**	**917**

Note 12
Other expenses

Other expenses	2015 $'000	2014 $'000
External auditor's remuneration	175	174
Valuer General services	11	12
Insurance	99	96
Unrealised change in fair value of investments	54	205
Office accommodation (minimum lease payments)	919	874
Marketing, product development and advertising	1 082	1 291
Internal audit fees	342	314
Loan administration	261	253
Information technology	1 062	900
Consultants' fees	58	93
Human resources and staff development	515	475
Other	1 584	1 737
Total other expenses	**6 162**	**6 424**

Total other expenses amount disclosed includes GST amounts non-recoverable from the Australian Taxation Office.

The number and dollar amount of consultancies paid/payable that fell within the following bands:	No	2015 $'000	No	2014 $'000
Below $10 000	3	15	3	14
Above $10 000	2	43	3	79
Total paid/payable to the consultants engaged	**5**	**58**	**6**	**93**

Note 13
Auditor's remuneration

	2015 $'000	2014 $'000
Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	175	174
Total audit fees – state government entities	**175**	**174**

The amounts disclosed above are inclusive of GST.

Other services

No other services were provided by the Auditor-General's Department.
Auditor's remuneration costs are disclosed in 'Other Expenses' in the Statement of Comprehensive Income (refer to note 12).

Note 14

Financial investments designated at fair value through profit or loss

14.1 Financial investments designated at fair value through profit or loss	2015 $'000	2014 $'000
SAFA Cash Management Fund	2 509	5 422
Term Deposits	28 500	18 000
Unit Trusts	7 046	13 647
Breakthrough Loans (shared appreciation component)	66 739	70 943
Total financial investments designated at fair value through profit or loss	**104 794**	**108 012**

14.2 Maturity profile of HomeStart's financial investments designated at fair value through profit or loss	2015 $'000	2014 $'000
At call	9 555	19 069
Not longer than three months	10 500	-
Longer than three months and not longer than twelve months	18 000	18 000
Longer than five years	66 739	70 943
Total financial investments designated at fair value through profit or loss	**104 794**	**108 012**

14.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 33.4.3 and 33.4.4.

Note 15

Financial investments – available-for-sale

15.1 Financial investments – available-for-sale	2015 $'000	2014 $'000
Bonds	12 005	11 971
Total financial investments – available-for-sale	**12 005**	**11 971**

15.2 Maturity profile of HomeStart's financial investments – available-for-sale	$'000	$'000
Longer than three months and not longer than twelve months	1 024	1 043
Longer than twelve months and not longer than five years	10 981	8 650
Longer than five years	-	2 278
Total financial investments – available-for-sale	**12 005**	**11 971**

15.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 33.4.3.

15.4 Reconciliation of available-for-sale investments	2015 $'000	2014 $'000
Opening balance at 1 July	11 971	13 958
Acquisitions	1 182	2 078
Disposals	(1 000)	(4 000)
Amortisation	(79)	(63)
Change in fair value (recognised directly in equity)	(69)	(2)
Closing balance at 30 June	**12 005**	**11 971**

Note 16
Loans and advances

16.1 Loans and advances	2015 $'000	2014 $'000
Primary loans	1 680 852	1 748 748
Subsidised loans	92 591	87 906
Gross loans and advances	**1 773 443**	**1 836 654**
Fair value adjustment	(14 299)	(14 835)
Deferred loan fee income	(5 626)	(5 392)
Deferred loan fee expense	2 171	2 204
Specific provision for impairment	(10 176)	(9 055)
Unearned income on impaired loans	(3 292)	(2 178)
Collective provision for impairment	(7 813)	(9 221)
Net loans and advances	**1 734 408**	**1 798 177**
Specific provision for impaired loans		
Opening balance	9 055	10 596
Transfer to unearned income	-	(2 178)
Bad debts written-off	(1 388)	(2 957)
Impairment expense	2 509	3 594
Closing balance	**10 176**	**9 055**
Collective provision for impairment		
Opening balance	9 221	9 512
Impairment expense	(1 408)	(291)
Closing balance	**7 813**	**9 221**
Total provision for impairment	**17 989**	**18 276**

16.2 Risk exposure

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided in note 33.2.1.

Note 17
Other financial assets

Other financial assets	2015 $'000	2014 $'000
Deferred financial investment income	123	134
Accrued interest on housing loans and advances	257	293
Accrued financial investment income	446	33
EquityStart grant receivable	90	85
GST recoverable	35	59
Dividend receivable	42	-
Other	154	165
Total other financial assets	**1 147**	**769**

Note 18
Intangible assets

Intangible assets	2015 $'000	2014 $'000
Software at cost	6 514	6 038
Accumulated amortisation	(2 181)	(1 580)
Total software	**4 333**	**4 458**
Carrying amount at 1 July	**4 458**	**3 572**
Additions	476	1 313
Disposals	-	-
Amortisation	(601)	(427)
Carrying amount at 30 June	**4 333**	**4 458**

All intangible assets were acquired externally directly from software suppliers or through contract arrangements.

Note 19

Property, plant and equipment

Property, plant and equipment	2015 $'000	2014 $'000
Leasehold improvements		
Leasehold improvements at cost (deemed fair value)	3 637	2 269
Accumulated depreciation	(2 759)	(1 829)
Total leasehold improvements	**878**	**440**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	2 811	3 199
Accumulated depreciation	(2 640)	(2 803)
Total other office and computer equipment	**171**	**396**
Total property, plant and equipment	**1 049**	**836**

Reconciliation of Property, Plant and Equipment and Intangible Assets

The following table shows the movement of property, plant and equipment and intangible assets during 2014-15:

	Leasehold improvements $'000	Other office and computer equipment $'000	Total $'000
Carrying amount at 30 June 2013	**645**	**577**	**1 222**
Additions – at cost (deemed fair value)	20	84	104
Disposals – at cost (deemed fair value)	-	(188)	(188)
Disposals – accumulated depreciation	-	188	188
Depreciation and amortisation	(225)	(265)	(490)
Carrying amount at 30 June 2014	**440**	**396**	**836**
Additions – at cost (deemed fair value)	862	66	928
Revaluation of make good asset	506	-	506
Disposals – at cost (deemed fair value)	-	(454)	(454)
Disposals – accumulated depreciation	-	454	454
Depreciation and amortisation	(930)	(291)	(1 221)
Carrying amount at 30 June 2015	**878**	**171**	**1 049**

All items of property, plant and equipment that had a fair value at the time of acquisition that was less than $1 million or had an estimated useful life that was less than three years, have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these items are deemed to approximate fair value. These assets are classified in level 3 as there has been no subsequent adjustments to their value, except for management assumptions about the assets' condition and remaining useful life.

Note 20
Other assets

Other assets	2015 $'000	2014 $'000
Prepayments	818	416
Total other assets	**818**	**416**

Note 21
Fair value measurement of non-financial assets

Fair value hierarchy

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. HomeStart categorises non-financial assets measured at fair value into a hierarchy based on the level of inputs used in their measurement.

Fair value measurements recognised in the Statement of Financial Position have all been categorised as level 3 and are detailed in the following tables.

Fair value measurements at 30 June 2015

Recurring fair value measurements	2015 $'000	Level 3 $'000
Leasehold improvements	878	878
Other office and computer equipment	171	171
Total fair value measurements	**1 049**	**1 049**

Fair value measurements at 30 June 2014

Recurring fair value measurements	2014 $'000	Level 3 $'000
Leasehold improvements	440	440
Other office and computer equipment	396	396
Total fair value measurements	**836**	**836**

There were no transfers of assets between level 1 and 2 fair value hierarchy levels in 2015. HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Valuation techniques and inputs

Valuation techniques used to derive level 2 and 3 fair values are provided at note 19. Although unobservable inputs were used in determining fair value, and are subjective, HomeStart considers that the overall valuation would not be materially affected by changes to the existing assumptions. There were no changes in valuation techniques during 2015. The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

Reconciliation of fair value measurements - Level 3

	Property, plant and equipment $'000
Opening balance at the beginning of the period	**836**
Acquisitions	1 434
Depreciation	(1 221)
Closing balance at the end of the period	**1 049**

Note 22
Payables

22.1 Payables	2015 $'000	2014 $'000
Creditors	719	336
Accrued administration expenses	273	312
Employment on-costs	401	370
Accrued interest payable on borrowings	1 084	2 359
Accrued interest payable on derivatives	140	142
Accrued guarantee fee payable	2 192	2 278
Accrued loan manager fees	482	525
Total payables	**5 291**	**6 322**

22.2 Interest rate and credit risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. The carrying amount of payables represents fair value due to the amounts being payable on demand. All payables will be settled within twelve months of the reporting date.

Note 23
Borrowings

23.1 Interest bearing liabilities	2015 $'000	2014 $'000
Short-term borrowings payable		
Short-term borrowings	694 456	635 134
Total short-term borrowings payable	**694 456**	**635 134**
Long-term borrowings payable		
Long-term borrowings	972 000	1 102 000
Total long-term borrowings payable	**972 000**	**1 102 000**
Total interest bearing liabilities	**1 666 456**	**1 737 134**

23.2 Security

All HomeStart borrowings are unsecured.

23.3 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 33.3 and 33.4 respectively.

Note 24
Employee benefits

24.1 Employee benefits	2015 $'000	2014 $'000
Accrued salaries	68	33
Annual leave	748	762
Long service leave	1 732	1 562
Total employee benefits	**2 548**	**2 357**

24.2 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave.

AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased to 3.0%, 2015, (3.5 %, 2014).

The decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the change in the current financial year is an increase in the long service leave liability of $61 800 and employee benefits expense of $70 500. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of factors and assumptions – a key assumption is the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4.0%. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

24.3 Settlement period of long service leave

HomeStart's policy allows any employee who has completed seven years of continuous service to:

- have their long service leave entitlements paid to them on leaving HomeStart as part of their termination payment
- take pro-rata long service leave
- cash out a proportion of their long service leave in lieu of taking the leave.

HomeStart therefore does not have an unconditional right to defer settlements of the long service leave liability for at least 12 months after the reporting date.

Note 25
Provisions

25.1 Provision for income tax	2015 $'000	2014 $'000
Income tax equivalent payable	2 322	2 751
Total tax equivalent payable	**2 322**	**2 751**

25.2 Provision for dividend	2015 $'000	2014 $'000
Dividend payable	-	554
Total dividend payable	**-**	**554**

Pursuant to Section 26 of the *Urban Renewal Act 1995*, HomeStart must recommend to the Minister for Housing and Urban Development, that it pays a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Minister may, in consultation with the Treasurer, by notice to HomeStart approve its recommendation or determine that another dividend, or no dividend, should be paid.

Dividends paid and payable have been specifically determined and approved in consultation with the Treasurer and the HomeStart's Minister.

For the financial year ended 30 June 2015, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2013-14). This amounts to a total dividend of $6.5 million in respect of the year ended 30 June 2015 ($7.16 million, 2013-14). The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2015.

HomeStart paid a dividend amount of $7.1 million to the Department of Treasury and Finance prior to the end of the financial year ($7.2 million, 2013-14). HomeStart will claim an overpaid dividend amount of $0.04 million in respect of the financial year ended 30 June 2015 ($0.56 million payable, 2013-14). The amount of dividend receivable is disclosed as receivable in Other Financial Assets, while 2013-14 dividend payable is disclosed as Provision for Dividend.

Note 26

Other liabilities

26.1 Other liabilities	2015 $'000	2014 $'000
Unearned income (EquityStart grant)	822	1 008
Workers compensation provision	38	38
Wyatt Benevolent Institution	2 323	2 315
Make good provision	714	226
Provision for restructure	445	-
City of Salisbury	5	4
Total other liabilities	**4 347**	**3 591**

26.2 Unearned income (EquityStart grant)	2015 $'000	2014 $'000
Opening balance	1 008	1 199
Amounts received/receivable	627	734
Amount recognised as earned (note 5)	(813)	(925)
Closing balance	**822**	**1 008**

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* requires that government grants related to costs be deferred and recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

26.3 Make good provision	2015 $'000	2014 $'000
Opening balance	226	211
Revaluation of provision	506	-
Charges against provision	(18)	-
Unwinding of discount arising from the passage of time	-	15
Closing balance	**714**	**226**

Note 27

Equity

General reserve for credit losses

A general reserve for credit losses was created within equity. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes. Amounts in the general reserve for credit losses will not be reclassified to profit or loss.

Derivatives valuation reserve

The derivatives valuation reserve was created to recognise the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. When a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, the gain or loss on the instrument previously recognised in the derivatives valuation reserve is reclassified from equity to profit or loss.

Available-for-sale revaluation reserve

The available-for-sale revaluation reserve was created to recognise the gain or loss on investments that are classified as available-for-sale. A gain or loss on an available-for-sale financial asset is recognised in the available-for-sale revaluation reserve until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss, even though the financial asset has not been derecognised.

Note 28

Unrecognised contractual commitments

28.1 Capital commitments

Capital expenditure contracted for at the reporting date, but not recognised as liabilities in the financial report, are payable as follows:

	2015 $'000	2014 $'000
Not later than one year	2 880	-
Later than one year but not later than five years	-	-
Total capital commitments	**2 880**	**-**

Capital expenditure commitments are for office fitout and fixtures and upgrades of operational systems.

28.2 Expenditure commitments – software licence commitments

Software licence expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2015 $'000	2014 $'000
Not later than one year	452	453
Later than one year but not later than five years	980	1 432
Total expenditure commitments	**1 432**	**1 885**

HomeStart's software licence commitments in 2014 and 2015 are in relation to the Front End Loan System.

28.3 Operating leases commitments

Commitments under cancellable and non-cancellable operating leases contracted at the reporting date but not recognised as liabilities are payable as follows:

	2015 $'000	2014 $'000
Within one year	1 060	909
Later than one year but not later than five years	3 459	76
Later than five years	4 873	-
Total operating lease commitments	**9 392**	**985**
Representing:		
Cancellable operating leases	9 392	985
Total operating lease commitments	**9 392**	**985**

HomeStart's operating leases are for office accommodation. The leases are non-cancellable with terms ranging up to 10 years with all leases having the right of renewal. Rent is payable in advance.

The total amount of rental expense for minimum lease payments for the financial year is disclosed in note 12.

28.4 Expenditure commitments – remuneration

Commitments for the payment of salaries and other remuneration under fixed term employment contracts in existence at the reporting date are not recognised as liabilities.

Notes 6 and 8 set out remuneration costs for the years ended 30 June 2015 and 30 June 2014. HomeStart estimates that commitments from existing employment positions within one year and annually will be consistent with salaries and wages expenses in note 6, adjusted for the salary inflation rate.

28.5 Commitments to extend credit to customers

Contractual commitments for loans either approved but not settled or settled but not fully drawn at the balance date amounted to $38.0 million ($57.4 million, 2013-14). These commitments are expected to be paid in the coming financial year.

Note 29
Contingent assets and liabilities

HomeStart is not aware of any material contingent assets or liabilities that exist at the reporting date.

Note 30
Related parties

Related parties include parties that control or have an interest in the entity that gives it significant influence over HomeStart. Transactions and balances between HomeStart and the related parties (other SA Government controlled entities) are disclosed in note 32. HomeStart is controlled by the SA Government.

All transactions between HomeStart and its related parties are on arms length terms and conditions.

During the financial year HomeStart undertook transactions with the following related parties:

- employees who are key management personnel
- board members
- Department for Communities and Social Inclusion
- Department of Planning, Transport and Infrastructure
- Department of Treasury and Finance
- South Australian Government Financing Authority (SAFA).

The nature and amounts of these transactions have been disclosed throughout the financial statements.

Note 31
Cash flow reconciliation

31.1 Cash

Cash and cash equivalents in the Statement of Financial Position include cash at bank and on hand and other short-term, highly liquid investments with maturities of three months or less that are readily converted to cash and which are subject to insignificant risk of changes in value.

31.2 Reconciliation of profit for the year to net cash used in operating activities

	2015 $'000	2014 $'000
Profit for the year	**10 904**	**11 923**
Add/less non cash items		
Amortisation of discount or premium on purchase of available for sale financial investments	79	63
Depreciation and amortisation expense of non-current assets	1 822	917
Unrealised change in fair value of loans	(565)	(2 375)
Unrealised change in market value of investments	54	205
Change in derivative financial instrument not recognised in equity	-	12
Reinvestment of managed funds distribution	(297)	(896)
Bad debts written-off	1 747	3 854
Loan interest charged but not received	(1 392)	(1 883)
Fees applied directly to loan accounts	(3 557)	(3 527)
Movement in assets and liabilities		
(Decrease) increase in provision for impairment	(287)	346
(Decrease) increase in deferred loan fee income	233	15
(Increase) decrease in deferred loan fee expense	34	176
(Decrease) increase in fair value adjustment	(535)	(624)
Increase (decrease) in payables	(2 044)	(584)
Increase in provision for employee benefits	190	206
Increase in provision for restructure	445	-
(Decrease) increase in other liabilities	(191)	(3)
(Decrease) increase in income tax equivalents payable	(430)	92
(Increase) decrease in financial and other assets	(330)	176
Net cash used in operating activities	**5 880**	**8 093**

Note 32
Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty is an entity within SA Government as at the reporting date, classified according to their nature. Transactions with SA Government entities below the threshold of $100 000 have been included with the non-government transactions, classified according to their nature.

Note		SA Government		Non-SA Government		Total	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
	Income						
4	Interest income	-	-	105 624	112 663	105 624	112 663
4	Interest expense on SAFA borrowings	(49 496)	(54 164)	-	-	(49 496)	(54 164)
5	Other income						
	Fees and charges	-	-	3 327	3 456	3 327	3 456
	Managed funds distribution	71	165	226	731	297	896
	Unrealised gain in fair value of loans	-	-	565	2 375	565	2 375
	EquityStart grant	813	925	-	-	813	925
	Community Service Obligation (CSO) subsidy	5 889	5 614	-	-	5 889	5 614
	Other income	-	-	2 279	2 037	2 279	2 037
	Net gain/(loss) from disposal of assets	-	-	-	-	-	-
	Total income	**(42 723)**	**(47 460)**	**112 021**	**121 262**	**69 298**	**73 802**
	Expenses						
10	Bad and impaired loans expense	-	-	(1 460)	(4 200)	(1 460)	(4 200)
	Loan manager fees	-	-	(5 830)	(6 210)	(5 830)	(6 210)
6	Employee benefits expenses	(465)	(462)	(10 592)	(10 448)	(11 057)	(10 910)
11	Depreciation and amortisation expenses	-	-	(1 822)	(917)	(1 822)	(917)
12	Other expenses						
	External auditor remuneration	(175)	(174)	-	-	(175)	(174)
	Office accommodation	-	-	(919)	(874)	(919)	(874)
	Marketing, product development and advertising	-	-	(1 082)	(1 291)	(1 082)	(1 291)
	Internal audit fees	-	-	(342)	(314)	(342)	(314)
	Loan administration	-	-	(261)	(253)	(261)	(253)
	Information technology	-	-	(1 062)	(900)	(1 062)	(900)
	Insurance	-	-	(99)	(96)	(99)	(96)
	Consultant fees	-	-	(58)	(93)	(58)	(93)
	Human resources and staff development	-	-	(515)	(475)	(515)	(475)
	Other	-	-	(1 649)	(1 954)	(1 649)	(1 954)
9	Government guarantee fee	(27 390)	(28 109)	-	-	(27 390)	(28 109)
	Total expenses	**(28 030)**	**(28 745)**	**(25 691)**	**(28 025)**	**(53 721)**	**(56 770)**

Note		SA Government		Non-SA Government		Total	
		2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
	Financial assets						
	Cash and cash equivalents	-	-	1 952	3 320	1 952	3 320
15	Financial investments at fair value through profit or loss	2 509	5 422	102 285	102 590	104 794	108 012
16	Financial investments available for sale	-	-	12 005	11 971	12 005	11 971
14	Loans and advances	-	-	1 734 408	1 798 177	1 734 408	1 798 177
17	Other financial assets	97	-	1 050	769	1 147	769
20	Other assets	-	-	818	416	818	416
	Total financial assets	**2 606**	**5 422**	**1 852 518**	**1 917 243**	**1 855 124**	**1 922 665**
	Financial liabilities						
22	Payables	(3 643)	(5 333)	(1 648)	(989)	(5 291)	(6 322)
33.2.2	Derivative financial instruments	(6 310)	(5 929)	-	-	(6 310)	(5 929)
23	Short term borrowings	(694 456)	(635 134)	-	-	(694 456)	(635 134)
24	Employee benefits	-	-	(2 548)	(2 357)	(2 548)	(2 357)
25	Income tax equivalents payable	(2 322)	(2 751)	-	-	(2 322)	(2 751)
25	Provision for dividend	-	(554)	-	-	-	(554)
26	Other liabilities	(822)	(1 008)	(3 525)	(2 583)	(4 347)	(3 591)
23	Long term borrowings	(972 000)	(1 102 000)	-	-	(972 000)	(1 102 000)
	Total financial liabilities	**(1 679 553)**	**(1 752 709)**	**(7 721)**	**(5 929)**	**(1 687 274)**	**(1 758 638)**

Note 33
Financial risk management

33.1 Overview

HomeStart's activities expose it to a variety of financial risks, primarily:

- credit risk
- liquidity risk and
- market risk (including interest rate risk and price risk).

This note presents information about HomeStart's exposure to each of the above risks as well as HomeStart's objectives, policies and processes for measuring and managing risk.

Taking risk is core to HomeStart's business. HomeStart aims to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

HomeStart's board of management has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies. In addition a Board Credit Sub-Committee has been formed to review and approve or recommend approval of individual loan applications which will result in an aggregate exposure to the borrower that exceeds $1.1 million.

HomeStart's risk management policies are designed to identify and analyse financial risks, set appropriate risk limits and controls, and monitor the risks and adherence to limits by means of reliable and up-to-date information systems. HomeStart regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial risk management is the responsibility of HomeStart's internal Treasury, Finance & Risk department which identifies, evaluates and, when feasible and appropriate, hedges financial risks. It operates in accordance with policies approved by the board and its sub-committees. These written policies cover overall risk management as well as specific areas, such as interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of funds.

HomeStart's board of management has delegated to the Audit Committee the responsibility for monitoring compliance with HomeStart's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by HomeStart. The Audit Committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. HomeStart's ALCO is also directly involved in the risk management process, in particular as it relates to the management of market risk and credit risk.

In accordance with the best practice APRA framework, the Board Credit Sub-Committee will review and authorise individual loan applications where the resulting aggregate exposure of the borrower will exceed $1.1 million and individual loan applications greater than $1.1 million and where appropriate will recommend the loan to the Minister or the Cabinet.

HomeStart's exposures to financial risk and how they arise as well as its objectives, policies and processes for managing the risk and the methods used to measure the risk have not changed materially from the previous period.

33.2 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause HomeStart to incur a financial loss by failing to discharge an obligation.

HomeStart's exposure to credit risk arises primarily from loans and advances to customers.

As described below, HomeStart manages its credit risk by dealing with credit worthy customers and counterparties, setting credit limits on its exposures and obtaining collateral.

33.2.1 Loans and advances

(a) Credit risk management

Credit risk is inherent in HomeStart's core function of lending.

HomeStart's credit risk management processes are overseen by the board, Audit Committee and ALCO.

The authority to make credit decisions in accordance with approved policies is delegated by the board to executive management.

The board and its sub-committees are responsible for monitoring payment and loss performance and regularly consider trends in the number of loans more than 30 days past due, expected loss analysis performed by both management and an independent actuary and actual losses realised.

The effectiveness of HomeStart's credit risk management framework is monitored via compliance and reporting processes. The Audit Committee is responsible for overseeing the internal audit of adherence to approved lending and arrears management policies.

(b) Risk control and mitigation policies

HomeStart manages, limits and controls credit risks wherever they are identified. Some specific control and mitigation measures are outlined below.

Lending policies

HomeStart's approved lending policies require verification of the customer's income and an assessment of credit worthiness based on credit checks with independent agencies and statistical analysis of the factors most likely to lead to credit default. HomeStart has at no time undertaken lending on a reduced documentation basis or lending which relies in any way on borrowers' self-verification of income.

Collateral

HomeStart holds collateral against loans and advances to customers in the form of registered mortgages over security properties.

HomeStart's credit principles specify that loans may only be made where the customer has the capacity and ability to repay. Obtaining collateral is used to mitigate credit risk.

Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured at the time of settlement. It is an ongoing condition of the loan contract that this insurance be kept current. Following settlement, HomeStart has other insurance arrangements to mitigate the risks arising from uninsured properties.

In the event of a loan default, any loan security enforced is held as mortgagee in possession. Any property thus held does not meet the recognition criteria of Australian Accounting Standards and is not recognised in the Statement of Financial Position.

The estimated fair value of collateral held is based on the Valuer-General annual property data or a current formal valuation. As at year-end the fair value of collateral for past due and impaired loans was:

Past due but not impaired	**2015 $'000**	**2014 $'000**
Gross carrying value	83 318	104 045
Fair value of collateral	124 855	153 499
Impaired		
Gross carrying value, before specific provision for impairment	60 697	51 197
Unearned income on impaired loans	(3 292)	(2 178)
Specific provision for impairment	(10 176)	(9 055)
Net impaired loans and advances	**47 229**	**39 964**
Fair value of collateral	62 299	52 943

Concentration of counterparty and geographic risk

HomeStart is not materially exposed to any individual customer. HomeStart is restricted under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*, to only lend in South Australia and is therefore exposed to the property market in this state.

Approximately 25% (26%, 2013-14) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area. This represents a risk as the limited market liquidity in country regions as well as the less diversified nature of rural economies can lead to greater volatility in property values. HomeStart currently manages this risk by imposing stricter Loan to Valuation Ratio (LVR) limits when lending in some country locations, and excluding others completely.

At reporting date 34% (31%, 2013-14) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies as well as obtaining and managing collateral, as described above.

Higher LVR loans

HomeStart has several product categories where the initial LVR is permitted to exceed 95% (higher LVR loans). To mitigate and control associated risks the total dollar value of higher LVR loans is not permitted to exceed internal limits. In order to control volumes of higher LVR lending, HomeStart limits both the geographic range of higher LVR lending and imposes further credit assessment requirements.

Loan Provision Charge

HomeStart does not require its customers to pay for Lenders Mortgage Insurance. It does, however, require its customers to pay a Loan Provision Charge at the time of advancing a loan.

(c) Credit risk measurement

Significant portfolio analysis is performed by management on a regular basis to measure and report credit risk. This work is supplemented by an independent actuarial review performed each year, the outcomes of which include the expected future amounts to be written-off.

This operational measurement can be contrasted with the impairment allowances required by AASB 139, which are based on the existence of objective evidence of impairment at the reporting date rather than expected losses (note 2.10.3 and note 14).

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss model that is used for internal operational management due to the different methodologies applied.

HomeStart has designated its Breakthrough Loans as being at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough Loan is not material.

(d) Credit quality and maximum exposure to credit risk

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of $1734.41 million ($1798.18 million, 2013-14).

The credit quality of loans and advances can be assessed by reference to the expected loss amount used for internal operational management (as described above) and the Behaviour Risk Grading (BRG) system adopted by HomeStart.

The BRG system is a statistical tool used to monitor the credit behaviour of loans over time and assign a risk grading to each. Outcomes are monitored regularly to test the validity of assumptions and parameters used.

The following table sets out the carrying value of loans and advances to customers. Further analysis by risk grading is also provided.

	2015 $'000	2014 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 413 203	1 439 626
Moderate risk	175 714	217 917
High risk	9 521	11 012
Gross loans and advances neither renegotiated nor past due	**1 598 438**	**1 668 555**
Renegotiated (1)		
Low risk	19 985	8 612
Moderate risk	8 505	2 554
High risk	2 500	1 691
Gross loans and advances renegotiated	**30 990**	**12 857**
Past due but not impaired (2)		
Low risk	47 046	54 547
Moderate risk	27 859	36 230
High risk	8 413	13 268
Gross loans and advances past due but not impaired	**83 318**	**104 045**
Total not impaired		
Low risk	1 480 234	1 502 785
Moderate risk	212 078	256 701
High risk	20 434	25 971
Gross loans and advances not impaired	**1 712 746**	**1 785 457**
Impaired (3)		
Low risk	22 908	16 685
Moderate risk	29 761	27 399
High risk	8 028	7 113
Gross impaired loans and advances	*60 697*	*51 197*
Unearned income on impaired loans	(3 292)	(2 178)
Specific provision for impairment	(10 176)	(9 055)
Impaired loans and advances after provision and unearned income	**47 229**	**39 964**
Total		
Low risk	1 503 142	1 519 470
Moderate risk	241 839	284 100
High risk	28 462	33 084
Gross loans and advances	*1 773 443*	*1 836 654*
Fair value adjustment	(14 299)	(14 835)
Deferred loan fee income	(5 626)	(5 392)
Deferred loan fee expense	2 171	2 204
Unearned income on impaired loans	(3 292)	(2 178)
Specific provision for impairment	(10 176)	(9 055)
Collective provision for impairment	(7 813)	(9 221)
Net loans and advances	**1 734 408**	**1 798 177**

The following table provides an analysis of the age of financial assets that are past due as at the reporting date but not impaired.

	2015 $'000	2014 $'000
<30 days	64 264	82 193
30 – 59 days	12 240	14 028
60 – 89 days	2 761	3 202
90 – 179 days	1 093	3 267
>179 days	2 960	1 355
Total	**83 318**	**104 045**

(1) Loans and advances renegotiated

HomeStart's policy permits certain customers to increase the balance of their loan by the amount of their arrears (arrears capitalisation). Following arrears capitalisation, a previously overdue customer account is reset to normal status.

HomeStart assesses arrears capitalisation on a case-by-case basis and decisions are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are reviewed at least annually.

Renegotiated loans that would otherwise be past due or impaired totalled $31.0 million as at 30 June 2015 ($12.9 million, 2013-14).

(2) Past due but not impaired

As per AASB 7 *Financial Instruments: Disclosures* (AASB 7), past due but not impaired loans are those where a counterparty has failed to make a payment when contractually due, however, are not considered impaired due to collateral available and other loan performance and customer characteristics.

(3) Impaired loans

Impaired loans and advances are those where HomeStart has determined that it is probable that it will be unable to collect all principal and interest due in accordance with the contractual terms of the loan agreement.

33.2.2 Derivative financial liabilities

(a) Credit risk management and risk control and mitigation policies

HomeStart is permitted by the Treasurer to transact in derivatives only with SAFA.

(b) Maximum exposure to credit risk

As at 30 June 2015 and 30 June 2014, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2015 $'000	2014 $'000
Derivative financial instruments	**(6 310)**	**(5 929)**
Swap income receivable	81	164
Swap expense payable	(221)	(306)
Net payable (note 22)	**(140)**	**(142)**

Further information in relation to derivatives is disclosed in notes 33.3.3 and 33.4.2.

33.3 Liquidity risk

Liquidity risk is the risk that HomeStart may, at some stage, be unable to meet its financial obligations when they fall due. The consequence may be failure to meet obligations to repay SAFA and fulfil commitments to lend money to customers.

33.3.1 Liquidity risk management

Risks relating to liquidity are governed by a range of treasury management policies, which are subject to oversight by ALCO.

HomeStart's liquidity management process is carried out and monitored by HomeStart's internal Treasury, Finance & Risk department and includes:

- day-to-day management of funding by monitoring cash flows to ensure excess funds are repaid, funds are replenished as they mature, and funds are borrowed when needed to meet lending and other financial commitments
- monitoring internal liquidity ratios and limits.

Monitoring and reporting takes the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Whole of government policy requires that HomeStart hold a positive balance in its operating bank account. HomeStart's internal policy requires maintaining daily cash at an agreed target balance.

33.3.2 Funding approach

HomeStart is required to use SAFA as its sole counterparty for all funding transactions. The arrangement gives HomeStart access to a significant volume of liquidity, restricted by an approved borrowing limit of $2105 million as at 30 June 2015 ($2105 million, 2013-14).

33.3.3 Exposure to liquidity risk

(a) Non-derivative cash flows

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt, subject to refinancing in the next 12 month period, is to be limited to 42% (40%, 2013-14) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	2015 %	2014 %
At 30 June	41.67	36.56
Average for the period	39.28	23.10
Maximum for the period	71.80	36.56
Minimum for the period	34.62	6.35

The tables below presents the cash flows payable by HomeStart under non-derivative financial liabilities by remaining contractual maturities at the reporting date.

2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Payables	3 099	2 192	-	-	-	5 291	5 291
Borrowings	67 226	6 209	655 527	1 024 513	-	1 753 475	1 666 456
Other financial liabilities	-	1 161	1 161	-	-	2 322	2 322
Total liabilities (contractual maturity dates)	**70 325**	**9 562**	**656 688**	**1 024 513**	**-**	**1 761 088**	**1 674 069**

2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Payables	4 044	2 278	-	-	-	6 322	6 322
Borrowings	39 841	8 002	633 437	1 153 661	-	1 834 941	1 737 134
Other financial liabilities	-	1 376	1 929	-	-	3 305	3 305
Total liabilities (contractual maturity dates)	**43 885**	**11 656**	**635 366**	**1 153 661**	**-**	**1 844 568**	**1 746 761**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, cash equivalents, loans and advances to individuals and liquid investments.

(b) Derivative cash flows

Derivatives used by HomeStart to hedge risk include interest rate swaps, forward rate agreements and bank bill futures.

The following table analyses HomeStart's derivative financial liabilities at fair value that will be settled on a net basis into relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2015	(216)	(438)	(1 766)	(4 300)	(70)	(6 790)	(6 310)
2014	(226)	(429)	(2 290)	(5 905)	(62)	(8 912)	(5 929)

Further information in relation to derivatives is disclosed in notes 33.2.2 and 33.4.2

(c) Off balance sheet

The periods of payment of unrecognised contractual commitments are disclosed in note 28.

33.4 Market risk

Market risk is the risk of changes in market prices such as interest rates, equities prices, credit spreads and property prices affecting HomeStart's income and returns.

The objective of market risk management is to monitor, control and mitigate exposure to this risk, all within acceptable parameters while at the same time optimising return.

33.4.1 Market risk management

HomeStart's market risk management processes are overseen by the board and ALCO.

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings, by the Finance Sub-Committee at its bi-weekly meetings and by HomeStart's internal Treasury, Finance & Risk department on a daily basis.

ALCO is responsible for approving these policies. The authority to make decisions in accordance with these approved policies is delegated by the board to executive management.

The effectiveness of HomeStart's market risk management framework is monitored via compliance and reporting processes and independent review by internal audit.

33.4.2 Interest rate risk – derivative financial instruments

(a) Risk control and mitigation policies

HomeStart manages, limits and controls market risks wherever they are identified. The following outlines some specific control and mitigation measures:

HomeStart engages in derivative financial instruments to hedge interest rate risk within its portfolio. These derivatives include interest rate swaps, forward rate agreements and bank bill futures.

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. To protect it from an increase in interest rates payable on its borrowings, HomeStart enters into interest rate swap contracts in order to hedge this mismatch of cash flows.

As at 30 June 2015, HomeStart had floating/fixed swaps with a notional value of $135 million ($177 million, 2013-14) with fixed rates varying between 1.69% and 7.21% (2.69% and 7.21%, 2013-14).

Periods to maturity of the interest rate swap contracts are disclosed at note 33.3.3(b).

(b) Market risk measurement and maximum exposure to interest rate risk

The major risk measurement process used by HomeStart to measure and control interest rate risk is the Value at Risk (VaR) methodology. Risk measurement and management is further enhanced through the calculation of Present Value per Basis Point (PVBP) as well as the use of stress testing.

Value at Risk (VaR)

HomeStart applies a VaR methodology to estimate the market risk of all positions held and the maximum losses expected, based upon a number of assumptions for changes in market conditions. ALCO sets limits on the value at risk that may be accepted by HomeStart, which are monitored on a daily basis by HomeStart's internal Treasury, Finance & Risk department and monthly by the board and ALCO.

HomeStart's VaR methodology models non-parallel shifts in the yield curve using the last 250 days of historical interest rate data to predict within a 99% confidence interval the likely outcome for the market value of a position or portfolio assuming it takes 10 days to unwind the open positions that give rise to the exposure.

Although VaR represents a good estimate of potential losses under normal market conditions, the model is necessarily based on reasonable management assumptions. Actual outcomes may therefore differ from expected results calculated using the VaR model.

ALCO has approved a maximum loss limit of $1.1 million. The VaR as at 30 June 2015 was $116 780 ($50 450, 2013-14).

(c) Hedge accounting

Variable rate debt used to fund fixed rate loans to customers is hedged by interest rate swaps, which have been designated as cash flow hedges, enabling the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Statement of Comprehensive Income when HomeStart designates the instrument into a hedge relationship and satisfies the 'hedge accounting' requirements contained in AASB 139 *Financial Instruments: Recognition and Measurement*.

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Statement of Comprehensive Income immediately. In the year ended 30 June 2015, a $0.4 million loss ($0.4 million gain, 2013-14) was recognised in equity during the period.

Further information in relation to derivatives is disclosed in notes 33.2.2 and 33.3.3.

33.4.3 Investments price risk

(a) Risk control and mitigation policies

HomeStart is exposed to investment price risk arising from investments held by HomeStart and classified in the Statement of Financial Position as fair value through profit or loss.

To manage its price risk arising from investments, HomeStart diversifies its portfolio in accordance with limits set by ALCO. The investments are held on a passive investment basis. Adherence to approved limits is monitored on a weekly basis by HomeStart's internal Treasury Finance & Risk department and monthly by the board and ALCO.

(b) Maximum exposure to investments price risk

HomeStart's maximum exposure to investments price risk has been recognised as the carrying amount at reporting date (note 14).

(c) Sensitivity analysis

The following tables summarise the sensitivity of HomeStart's profit to investment price risk. The analysis is based on the assumption of a 10% increase or decrease in market value at year-end, with all other variables being held constant.

2015	Carrying amount $'000	-10%	10%
Unit trusts	7 046	(705)	705
SAFA Cash Management Fund	2 509	(251)	251
Total increase/(decrease) in profit before tax and equity		**(956)**	**956**

2014	Carrying amount $'000	-10%	10%
Unit trusts	13 647	(1 365)	1 365
SAFA Cash Management Fund	5 422	(542)	542
Total increase/(decrease) in profit before tax and equity		**(1 907)**	**1 907**

33.4.4 Breakthrough Loan property price risk

(a) Risk control and mitigation policies

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough Loans made to customers that are measured at fair value through profit or loss. The fair value of this loan is based on the value of the property pledged as collateral (note 2.10.4.1).

To manage its price risk arising from Breakthrough Loans, HomeStart limits the total size of the Breakthrough Loan portfolio, the dollar value of loans settled each month and the geographic locations where lending is undertaken.

(b) Maximum exposure to property price risk

HomeStart's maximum exposure to property price risk has been recognised as the carrying amount at balance date (note 14).

(c) Sensitivity analysis

The following table summarises the sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan. The analysis is based on the assumption of a 5% increase or decrease in property market value at year-end, with all other variables being held constant.

	2015 Carrying amount $'000	-5%	5%	2014 Carrying amount $'000	-5%	5%
Breakthrough Loans	66 739	(3 956)	4 266	70 943	(4 134)	4 516
Total increase/(decrease) in profit before tax and equity		**(3 956)**	**4 266**		**(4 134)**	**4 516**

33.4.5 Currency risk

Changes in foreign exchange rates will not directly cause the fair value or future cash flows of any financial instruments held by HomeStart to fluctuate.

Note 34

Fair value and categorisation of financial instruments

34.1 Fair value and categorisation of financial instruments

The table below summarises the categorisation, carrying amounts and fair values of HomeStart's financial assets and liabilities.

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect of each class of financial asset and financial liability are disclosed in note 2.

	Category	2015		2014	
		Carrying value	Fair value	Carrying value	Fair value
		$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	N/A	1 952	1 952	3 320	3 320
Investments	Fair value through profit or loss	104 794	104 794	108 012	108 012
Investments	Available-for-sale	12 005	12 005	11 971	11 971
Loans and advances [2]	Amortised cost	1 734 408	1 734 837	1 798 177	1 798 554
Other financial assets	Financial assets (at cost)	1 147	1 147	769	769
Total financial assets		**1 854 306**	**1 854 735**	**1 922 249**	**1 922 626**
Financial liabilities					
Borrowings [3]	Financial liabilities (amortised cost)	1 666 456	1 666 982	1 737 134	1 743 647
Other liabilities	Financial liabilities (amortised cost)	4 347	4 347	3 591	3 591
Derivative financial instruments	Hedge accounting (fair value through equity)	6 310	6 310	5 929	5 929
Payables	Financial liabilities (at cost)	5 291	5 291	6 322	6 322
Total financial liabilities		**1 682 404**	**1 682 930**	**1 752 976**	**1 759 489**
Net financial assets		**171 902**	**171 805**	**169 273**	**163 137**

[2] The loans and advances fair value adjustment relates to the fixed interest rate loans portfolio which has been classed as at level 3. As at balance date, the amortised cost is determined by discounting the expected future cash flows by the current interest rate that would apply to those cash flows based on their remaining term. For loans where the fixed interest rate exceeds the current interest rate, the amortised cost will exceed the face value of the loans.

[3] The fair value of borrowings is disclosed using SAFA market valuation at level 2. The market value derived by SAFA was calculated using market (mid) rates at close of business 30 June 2015.

34.2 Fair value estimation

(a) Derivatives

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows determined using the yield curve at year-end. The yield curve is derived from the cash rate (overnight), current interbank money market rates (maturities less than one year) and current interest rate swap levels (maturities of one year and longer).

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows of non-subsidised loans are discounted using the interest rate payable by the customer, which is market rate. Subsidised loans are discounted using a risk free rate of interest, based on four or seven year (for Advantage Loans) and ten year (for EquityStart Loans) SAFA bonds.

(c) Investments

The fair value of investments in the Unit Trusts and SAFA Cash Management Fund are determined using exit prices supplied by the fund managers at reporting date.

(d) Shared appreciation component of the Breakthrough Loan

Note 2.10.4.1 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough Loan.

The fair value is estimated by management based on individual property valuations provided by independent parties. These valuations are adjusted by HomeStart's contractual equity stake and appreciation factor.

The valuations used by management are primarily determined by Hometrack Australia using an automated valuation method. Prior to accepting an automated valuation for use, management reviews the statistical probability of error provided by Hometrack Australia to ensure that the risk of material misstatement to the financial statements is unlikely.

When management judges that valuations determined using an automated valuation method are not sufficiently accurate, valuations provided by either the Valuer-General or another independent valuer are used.

The following summarises how the fair values of properties used as collateral for Breakthrough Loans have been determined.

	2015 %	2014 %
Valuation determined using an automated method (Hometrack Australia)	95.12	96.51
Valuation provided by the Valuer-General	3.47	1.98
Other valuations used	1.41	1.51

(e) Bonds

The fair value of bonds is calculated using observable market prices.

(f) Borrowings

HomeStart reports fair value of its borrowings based on the valuation undertaken by SAFA who is the sole provider of funds to HomeStart.

34.3 Hierarchical classification of financial assets measured at fair value

The following discloses, for each class of financial instrument measured at fair value, the level in the fair value hierarchy into which the fair value measurements are classified in their entirety, segregating fair value measurements in accordance with the following levels:

- Level 1 – quoted prices (un-adjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no significant transfers between Level 1, Level 2 and Level 3 during the financial year.

2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
SAFA Cash Management Fund	-	2 509	-	2 509
Term deposits	-	28 500	-	28 500
Unit trusts	-	7 046	-	7 046
Bonds	-	12 005	-	12 005
Breakthrough Loans	-	-	66 739	66 739
Total financial assets measured at fair value	**-**	**50 060**	**66 739**	**116 799**
Financial liabilities measured at fair value				
Derivative financial instruments	-	(6 310)	-	(6 310)
Total financial liabilities measured at fair value	**-**	**(6 310)**	**-**	**(6 310)**

2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
SAFA Cash Management Fund	-	5 422	-	5 422
Term deposits	-	18 000	-	18 000
Unit trusts	-	13 647	-	13 647
Bonds	-	11 971	-	11 971
Breakthrough Loans	-	-	70 943	70 943
Total financial assets measured at fair value	**-**	**49 040**	**70 943**	**119 983**
Financial liabilities measured at fair value				
Derivative financial instruments	-	(5 929)	-	(5 929)
Total financial liabilities measured at fair value	**-**	**(5 929)**	**-**	**(5 929)**

34.4 Reconciliation of Level 3 fair value measurements

	2015 $'000	2014 $'000
Fair value at 1 July	**70 943**	**70 549**
Breakthrough Loan settlements	5 066	5 962
Breakthrough Loan discharges	(9 835)	(7 943)
Unrealised change in fair value of loans (note 5)	565	2 375
Fair value at 30 June	**66 739**	**70 943**

Note 33.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

Note 35
Events after balance date

The Board of HomeStart at its meeting on the 18th August 2015 approved the payment of an interim dividend of $20 million from retained earnings in the 2015-16 financial year and recommended this payment to the Minister for Housing and Urban Development.

Note 36
Segment reporting

HomeStart operates in one geographical segment (South Australia) and its principal activity is the provision of home finance to low and middle income groups.

Note 37
Economic dependency

HomeStart has an economic dependency on the following suppliers of services:

Financing services

SAFA is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a significant proportion of its loan management services to BankSA, Homeloans Plus, Bernie Lewis and Australian Associated Advisers Pty Ltd, trading as KeyInvest Lending Services.

INDEPENDENT AUDITOR'S REPORT

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To the Chair
HomeStart Finance

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 27(4) of the *Urban Renewal Act 1995*, I have audited the accompanying financial report of HomeStart Finance for the financial year ended 30 June 2015. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2015
- a Statement of Financial Position as at 30 June 2015
- a Statement of Changes in Equity for the year ended 30 June 2015
- a Statement of Cash Flows for the year ended 30 June 2015
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and Acting Head of Treasury, Finance and Risk.

Board's Responsibility for the Financial Report

The members of the Board are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the members of the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members of the Board, as well as the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2015, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

Andrew Richardson
Auditor-General
18 September 2015

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